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Zain KSA 2Q25 Earnings Call

Thursday, 31 July 2025

Omar Good morning and good afternoon, everyone. This is Omar Maher from EFG Hermes. I'd like to welcome everyone to Zain KSA Q225 results conference call. As always, the conference call will begin with a discussion of the key highlights of the period, and this will be followed by a Q&A session.

And 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 welcome to Zain KSA's second quarter 2025 earnings call. I am Faisal Alkahtani, manager of Investors Relation. Joining me today are our CEO, Eng.Saad Alsadhan, who was officially appointed to the role on July 1st, 2025, after serving as an acting CEO for almost one year. We congratulate Eng. Saad on his appointment and wish him great success in leading the company forward. Also with us is our CFO Mr. Mehdi Khalfaoui. We announced our Q2 2025 results on Sunday, July 27th, 2025, and released our financial statements today, 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 the 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 believes 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 successfully and timely execution of plans 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 second 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.

Eng.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.

On the financial highlights, as we have reported in our latest financial results covering H1 2025, we have achieved a revenue of 5.344 billion, which is 5% year on year growth. Net profit over the period amounted to 220 million, which is 28% increase compared to the corresponding 2024 period. EBITDA reached 1.664 billion, which is 7% growth.

Tamam financials, we witnessed a successful H1 2025 and expanded its products and services, resulting in a revenue of 211.9 million, corresponding to 27% year on year growth. Tamam also achieved a 7.5% net profit growth reaching 56.9 million in H1 2025, versus corresponding period in 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 consumer segment, cementing Zain KSA position as the digital provider of choice. Growth was further supported by the demand on "Yaqoot" digital services and the improved return on investment in adjacent market, especially in FinTech, through Tamam. Our total active customers were

8.2 million by the end of H1 2025, with an ARPU of SAR 61. Total Capex investment for H1 2025 was 587 million used to further enhance the quality of service provided to the customers.

And the network achievements, Zain KSA has secured the number one position among all operators in download speed, as per “Global Platform Specializing in Performance Measurements”, with a remarkable 16% year on year improvement for user throughput.

Additionally, we have seen a 7% year on year increase in overall attached data subscribers across Zain network, with a more than 44% growth in the 5G subscribers, positioning us definitely for sustained growth and value creation. Moreover, more than 58% of the total traffic is being carried by our 5G network. This is in line with our investment and customer centric strategy, designed to scale our 5G footprint and meet escalating capacity demands.

The technology milestone, Zain KSA showcased its technological strength and innovation by covering one of the longest tunnels in the Middle East with 4G and 5G solutions. Zain KSA is one of the first operators in the Middle East to activate 600 MHz band, which will unlock the power of 5G standalone and more use cases. We were recognized by the National Transformation Program in TB in its 2024 annual report for our efforts in accelerating the pace of digital transformation.

Hajj, this year, was a major source of pride for us, as we hit major milestones and achievements for delivering a seamless and state of the art experience for pilgrims, with our AI-driven 5G network. Proudly, our digital service “Yaqoot” became the first operator to enable visitor SIM authentication via Absher, which empowered the customer experience. To assure our messages and services reach all pilgrims, we have launched a major Hajj communication campaign that includes Zain leaders visits across the holy sites.

In the event participation, Zain KSA became the official digital partner of the educational global exhibition (EDGEEx), hosted by the Ministry of Education. This partnership reaffirmed Zain’s strategic commitment to innovation and development.

In May this year, his Excellency Minister of Communication and transformation technology Eng. Abdullah Bin Amer Alswaha, alongside his excellency Eng. Haitham Alohal, Vice Minister at the Ministry of Communication and Information Technology, (MCIT) and Acting Governor of Communication Space and Technology commission, (CST) visited Zain KSA in Mina to oversee Zain’s preparation for serving pilgrims during the Hajj season, 1446H.

Strategic Partnership. Proudly, we signed an MoU with “Liajlehum” association for serving people with disabilities. Also, we celebrated “International Girls in ICT” day by partnering up with the Ministry of Communication and Information Technology.

The awards, Zain KSA won the SCF Mobile Network Award for our pioneering 5G Xtreme solution, proudly standing out from 157 nominees, we won two CHI Excellence Award. (Best employer health and wellbeing program for large enterprise award, along with the Health Awareness Excellence Award) from the Council of Health Insurance.

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Sustainability, ESG goals definitely are at the heart of our operations and organization, which allow us to remain champions of sustainability. We conducted a materiality assessment to organize and rank Zain KSA's ESG topics using a 3-level scale and matched them with the National and International goals. Zain KSA continued its longstanding partnership with MCIT and CST in "Recycle your Device" campaign to reduce the e-waste.

Finally, we are delighted to see how our efforts have been recognized and how successful our well-planned strategic investments are. We are continuing our strategic plan to sustain our position as the digital service provider of choice and the 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. In terms of Q2 performance, our revenue showed growth of 102 million or 4%, reaching 2.7 billion, while remaining 1% lower than Q1 this year. A significant part of the revenue growth compared to Q2 last year is driven by growth in core operating revenue, wholesale and micro-lending segment. 5G MBB contributed more than 80% of the overall increase, followed by growth in prepaid revenue, including our digital products, driven by higher customer acquisition and value, despite a challenging Hijj season this year in terms of number of visitors. The growth in revenue was also supported by the growth in the inbound roaming that has contributed significantly to the gross margin improvement during this quarter.

Our micro-lending segment showed 24% revenue during the quarter, reaching 106 million, compared to 86 million in Q2 last year, aligned with the higher sales and increase in gross loan portfolio.

Customer base reached 8.2 million, reflecting a decrease of 8% as compared to last year, primarily due to end-to-end low value customers, whereby the core segments, in terms of consumer, B2B, have shown an increase during the same period, especially from 5G and prepaid base.

In terms of gross margin, we reported 1.6 billion Saudi Riyal, reflecting 85 million or 6% growth compared to last year quarter, with the gross margin percentage also improving from 60.4% to 61.3%. The enhancement in gross margin is mainly attributable to the 5G revenue uplift, higher margin from micro-lending segment, improved margin on postpaid with the device sales this year, and finally, due to growth in inbound roaming revenue following the network modernization of the Hajj areas.

To conclude on the gross margin, the incremental gross margin came at a higher margin, translating into 85 million from a growth and revenue of 102 million, with 83% translating the profitability improvement of the growing segment.

In terms of Opex, we reported 775 million, 29% of revenue, as compared to Q2 last year of 760 million, 30% of revenue. Opex as percentage dropped despite booking additional 30 million ECL originating from a comprehensive review of credit risk relating to old-aged receivables, including government segment, inclusion of higher network maintenance owing to additional Build-to-Suit and its associated inflation. We also undertook a comprehensive cost review and optimized Opex lines, such as advertising with more spending towards

revenue generating segments, outsourcing, and system support, further to the decommissioning of the support from the legacy system.

Our reported EBITDA of 850 million in Q2 2025 was higher than Q2 2024, by 70 million or 9%, mainly attributable to higher gross margin of 85 million, offset by slight increase on Opex by 15 million, with EBITDA margin also Improving from last year 30.6% to 32%.

In terms of quarterly EBIT, we reported 305 million that was higher than last year by 63 million, mainly flowing through higher EBITDA, offset by additional amortization from the new spectrum of 7 million, in addition to its impact on the financing cost, by 6 million.

Moving now to the financing cost. We have reported a reduction of 10 million from 186 million in Q2 last year, to 176 million in Q2 this year, due to the decrease in loan base, after the repayment of 633 million MFA installment in September last year, and the reduction of cost of debt, including the renegotiation of the MOF loan that was settled early this year at a lower margin.

In terms of net profit, the company reported 127 million higher than Q2 last year net profit by 22 million or 21%, in line with the higher EBIT, lower net interest expense.

So to conclude on the net profit, we ended the quarter with 22 million higher than last year as a result of the EBITDA growth and the one-off of 52 million recognized in Q2 last year, normalized growth would be 74 million from a net profit of 53 million in Q2 last year, to 127 million during Q2 this year. Majorly, the improvement came as a result of the operational results, mainly from the gross margin uptake.

Capex for the quarter is 84 million, equivalent to 3% of revenue compared to 68 million in Q2 last year, with the bulk of capitalization of 504 million, including a 411 million from spectrum capitalized during the first quarter. In terms of Capex commitment, we still have projects under implementation worth of 2.18 billion, as compared to 2.4 billion as of December 2024.

In terms of cash flow, we started the year with 839 million. We closed at 385 million in June this year, following the major payment made during the quarter. Capex payments of 523 million, including the payment of frequency 191 million, in addition to Capex, 187 million, funded by the Capex facility shown in non-cash transactions. During the year, we have drawn loans amounting 1.9 billion and 170 million related to MOF and the new Tamam loan, respectively. In terms of repayment, we repaid 2.3 billion Saudi riyal, including working capital repayment. We also paid 270 million worth of financing cost during this year.

Further, we generated 1.1 billion cash from operations during this year.

In terms of free cash flow, we reached positive 575 million as compared to negative 159 million last year. The improvement of cash flow mainly came because of the Capex financing facility amounting 1.2 billion, out of which 934 million has been utilized so far. This was offset by the increase in the total receivable by 872 million, and ongoing efforts to materialize the B2B collection and payment are in progress.

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In terms of debt profile, our net debt for the period reached 7.8 billion consequent to the drawdown from the Capex financing and the new Tamam loan. Our reported Net Debt to EBITDA, excluding any lease liability related to a non-bank, reached 2.28x, as compared to 2.2x, at the end of 2024. Our debt as of Q2 2025 represents 49% of the capital structure.

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

Faisal Alkahtani Thanks. We can start the questions now.

Omar Thank you. So move to the Q&A. If anyone would like to ask any questions, you can either use the raise hand function to ask your question verbally, or you can put your question in writing in the Slido Q&A box. We'll take our first question from, should be from Nishita Koti. Nishita, can you hear us?

Nishita Yes, I can. Thank you, Omar. Thank you, management, for the opportunity. And I just have one question on your collections or other receivables. You mentioned that you're working on the collections from the B2B segment, but the ECL also has gone up. So where do you see the stress in collection? Is it from the government side? Is it from the private sector? What's leading to such jump in receivables and possible ECL provisioning as well? So that's my question. Thank you.

Eng.Saad Alsadhan Sure. Thank you very much for the question. On the ECL from the government, we are pushing hard because of multiple change on the way of payment from the government using multiple platforms. So we are in day-to-day meetings with multiple ministries regarding this topic, regarding using multiple platforms, uploading all the documents and make sure that it is well-recognized from their side and acknowledged from their side. So it's taking a little bit of time, but starting from last quarter, we start seeing the use of the methodology that they just change it. It is paying off. And we start seeing the collection from the government.

Mehdi Khalfaoui In terms of numbers, receivable increase, if you have noticed it, Q1, there was an increase in receivable of 785 million. Full H1, it's 871 million. So the increase in receivable was contained during Q2 because it has not only the receivables from the customers that increase, but also receivables from wholesale, from interconnect that we managed to settle during the second quarter.

Nishita Okay, sorry, just a related one on this collection. Sorry, on the B2B side itself. Is there any slowdown in projects or opportunities currently, or the market is still very strong, and there's lot of opportunities on the government side? Any color on the macroenvironment will be very helpful.

Eng.Saad Alsadhan Again, back to the point, they are using the government to start using because of the cost efficiency, they start using platforms, the platforms floating all the RFPs. But in Zain, we focus on the healthy margins of projects in order to enhance and elevate the shareholder value as well. So we are selective in terms of the projects to make sure that we deliver it on time, and we have currently more access to those platforms. It is a new methodology that they are using it in the telecom sector, and we are currently registered in all those platforms and acknowledging all of the deals that on the pipeline. It is linked to a budget. So if they are facing

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a budget issue, then they have to reduce the projects as well. So this is why there's a reallocation of the budget, also from ministries to ministries and the government sector and the semi-government. So we try as much as we can to engage on those platforms to see the big picture. And we started this this year, and we hope so that we capture more and more with a healthy and high margin, not only with a low margin or low projects.

Nishita Wonderful. Thank you so much.

Omar Thank you. Next question is from Maddie Singh. Maddie, go ahead, please.

Maddie Great, thanks. So I have a couple of questions. Firstly, just thinking about your revenue growth for second quarter slightly slower at around 4%. So how do you see that evolving in the next quarters? Do you think seasonality will help you in the coming quarters, or do you expect this performance to kind of remain where we are, around 2.6 billion riyal? So that's the first question. And secondly, on the dividend side, you already have SAR 0.5 dividend payment. So what would drive this dividend higher? What do you need to see for being able to increase dividend payout? Thank you.

Eng.Saad Alsadhan On the first question, we are focusing on all the segments driven by B2C “Yaqoot”, which is our digital product, and B2B. Why? Because we wanted to utilize the infrastructure that we are investing in, which is the 5G and the new spectrum acquired with the new use cases of this spectrum. Also, we are pushing the FinTech project to expand more and more like Tamam and those are the main growth verticals that we are focusing in.

Mehdi Khalfaoui On the revenue we deliver it so far, 4% to 5% over the past two quarters, and we are not expecting, I mean, a slowdown as we speak now. In terms of dividends, definitely as management. We focus on creating the value to the shareholders, then it's up to the board and to the General Assembly to decide whether or not to pay or how much would be the payment. But so far, I think what we paid so far was in line with the business plan of the company. But at this stage, we cannot disclose whether, I mean, we will pay a dividend next year or not. We cannot. Thank you.

Omar Thank you. Next question is from Thando Skosana.

Thando Hi, good afternoon. Thank you for taking my questions. I'll just keep it to two, please. The first one is just on margins, EBITDA margins, and also gross profit margins. Mehdi, if you can help me out here, maybe if you could provide some sort of guidance for 2025, whether directionally or in numbers, because I'm trying to assess whether this 32% EBITDA margin is sustainable for the full year. So some sort of color on that, and what would be the drivers of that margin progression? Then my second question is just on the number of customers. I think you've lost about 700,000 in this quarter compared to the Q1, so just some thoughts on the competitive environment. That'll be great. Thank you.

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- Eng.Saad Alsadhan Thanks for the question. Let's start with the customers, customer base drop that we are having, and we already announced that it's related to machine to machine services, where this service is a very low value SIM cards, and there are a lot of restrictions and the new regulations on that, and it is up and down. And this is the market in terms of those SIM cards, it's not B2C, it's not B2B, and it's worth to mention that we are growing on the base of the customers on the B2B side and the B2C side.
- Mehdi Khalfaoui On EBITDA margin. Thank you, Thando, for the question. I think we surprised you this quarter, definitely the inbound roaming played a major role when it comes to the improvement of the EBITDA margin. We continue to operate with the same efficiency. Q3 also should be a high season, especially with the launch of the iPhone. Q4 as well. So, our target is to continue to operate with the same efficiency, continue exploring any pocket when it comes to cost optimization, and definitely push the revenue with the high margin. But we are still standing that a minimum of 30% is a full year for a full year, which is again a minimum at this point in time. Thank you.
- Omar Thank you. Next, we have a written question from Yasir Bingaba, and it says, can you provide the guidance for 2025?
- Mehdi Khalfaoui This year we didn't give guidance. Most likely next year we'll start giving guidance from beginning of the year, subject definitely to if we are allowed to do this or not. However, in terms of revenue growth, we have been delivering a consistent growth over the past two quarters of 5% to 4%. We don't expect this growth to slow down. In terms of EBITDA or EBITDA margin, as we said, I mean a minimum of 30% can be considered. And in terms of net profit, I mean, similar to what we said back in the towerco transection day, where we said that we will continue delivering the same profit after towerco, but without having the towerco one-off gain in place. Yet, I think we demonstrated so far that the downside when it comes to EBITDA from the towerco structure have been mitigated through the push of the high margin segment translated into the 85 million basically that we delivered in terms of incremental gross margin during this quarter. Thank you.
- Omar Thank you. So, reminder, if anyone would like to ask any questions, you can either use the raise hand function for verbal questions or Slido for written questions. And there's a question from Abdulaziz Alkadi. Please go ahead.
- Abdulaziz Yes, thank you, management, for the presentation. Congratulations for the results. I have a question regarding Tamam. Can you disclose any terms of market share, and if you may disclose it. Thank you.
- Eng.Saad Alsadhan Thank you, Abdulaziz. In terms of market share, we cannot disclose anything about the competition, especially in the market share. But we know that we are growing year on year. And we achieved 211 almost 212 million revenues, and we are pushing hard the growth in in Tamam multiple verticals, not only the micro financing, exploring multiple options. And in Q2, we grow around 24%, 25%, and even we are growing not only on the top line, but also the bottom line of Tamam. The active loan book now reaches around 1 billion in Tamam in the

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market, and we have more than 81,500 customers, in order to leverage on those customers with multiple products in the portfolio.

Omar Thank you. There's a written question from Abhishek. It says any comment on prepaid and postpaid ARPU going ahead?

Mehdi Khalfaoui Because we don't disclose the breakdown, yet we focus on the blended up of the company. The higher the contribution would be, in terms of 5G in terms of postpaid, the higher the blended ARPU would be. However, as a base, majority of the base there is prepaid. So ARPU has been showing a stable figure, at least over the past quarters, and it would continue to be the same, and if there is an increase, it will be demonstrated throughout the upcoming quarters. Thank you.

Omar Thank you. There's a follow-up from Abdulaziz Alkadi. Please go ahead.

Abdulaziz Yes. Thank you. Maybe it could be more of an amateur question as relatively new to the company, but I want to ask, like, for the manager, from the management perspective, like, what do you believe is the growth catalyst for Zain? So, for now, Tamam is doing good, and we believe it will continue doing that from the consumer or B2C, it's a tough competition in the market, and you're already maintaining your market share. But going forward, like, where is Zain heading? Like, where do you see the growth catalyst for the company in a broader picture?

Eng.Saad Alsadhan What we are doing on Zain, we are focusing with all the segments, B2B, B2C, Tamam, the digital product "Yaqoot". And we are trying to capture the focus of the government spending as well. So whenever there is a push from the government in terms of B2B projects, for example, as you know, from now till, I think, for the coming seven, eight years, we are expecting lots of new projects, like Expo like Winter Olympic Game, like World Cup, like lot of other initiatives from Ministry of Sport, as you know. So it is a big potential that we focus and we work on it from now building the infrastructure, and this is why we are capturing and we are acquiring the new spectrum of 600 MHz last year that we announced about, and we are investing in the 5G and also in the fiber infrastructure as well, and the submarine cable in terms of wholesale and the border to border interconnection to be ready for the future. That our foundation is solid is a strong, our infrastructure can capture all the demand that we are having on the market. As much as we put in the network, there is a huge demand from the customer similar to the 5G. More than 50% of our traffic is implemented on our 5G network. All the segments are under huge focus and pressure as well in order to capture the highest margin. And because, as you know, we already mentioned this about creating a value to our shareholders, so we are balancing between increasing the top line as well as EBITDA margin and the profit as well.

Abdulaziz That's clear, and you're really focusing on all segments clearly and appreciated, but do you have, like, some type of disclosure for the B2B segment, like, how much of it is coming from the government? As you particularly know that government Reliance could have its own, could have a risk associated from lower spending sometimes. So, like, do you give some sort of breakdown between a private sector and a government sector in terms of B2B?

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- Eng.Saad Alsadhan Usually we don't disclose exactly the number from the government, but the number is up and down because of the project. In Zain KSA, what we look at, especially on the B2B, is achieving our targets and our strategy as well, in order to make sure, regardless, it's coming from where. The government now, as you know, is on a public platform, so we can capture more than before, because it is not a direct PO. It is normal RFPs in "Etimad" and another platform sub Etimad called Marketplace that it is open, and we are officially registered on that platform to provide the normal services, connectivity services. And there is another platform that we are registered in, which is for the cloud services. For the private sector, we are pushing hard as well in terms in order to balance between the government and the private and to capture all the segments on the market.
- Mehdi Khalfaoui The segment reporting is available within the financials, within note 14, if you have the chance to review it, and you will have the consumer B2B and wholesale segments there. Thank you.
- Abdulaziz Thanks a lot. Thank you.
- Omar Thank you. There are no more questions in the queue, so back to management, in case you'd like to make any concluding remarks before we wrap up the call.
- Faisal Alkahtani Thank you all for joining us today, and for your continuing 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.
- Eng.Saad Alsadhan Thank you very much.
- Omar Thank you to the management team and thank you, everyone, for your participation. This concludes the call. Have a nice day.