

# Zain Group's CEO Resigns

## Flash Note

Sunday February 7, 2010



### Zain Group's CEO submits his resignation

- Kuwait's Zain said its Chief Executive, Saad Al-Barrak, has submitted his resignation but it gave no reason for the decision, highlighting uncertainties over the sale of a controlling stake in the firm. According to a Zain statement to the Kuwaiti bourse on February 3<sup>rd</sup>, "Saad Al-Barrak has submitted his resignation to the Chairman, and he will present the resignation to the Board of Directors to look into it". The statement did not give a reason for the resignation and Zain declined to comment.
- Barrak will keep his post as Chief Executive of Zain Saudi Arabia, which is 25% owned by Kuwait's Zain, stated Prince Hussam bin Saud al-Saud, Chairman of Zain Saudi Arabia.
- Zain has chosen a former Minister of Communication to replace Saad Al-Barrak, according to newspaper reports last Thursday. "Former Minister of Communication, Nabil bin Salama, has been chosen as the Chief Executive," reported Reuters quoting Kuwaiti daily Al-Qabas.

### Background of the deal to sell 46% of Zain

- In September 2009, Al-Kharafi Group, the largest private shareholder of the company with a stake of 11.41%, said it was confident of selling a 46% stake in Zain. It had agreed to sell this stake to a consortium, including India's Vavasi Group and Malaysian billionaire Sayed Mokhtar Al-Bukhary for USD 13.7 billion, in a deal that did not involve Zain's management. India's Bharat Sanchar Nigam Ltd and Mahanagar Telephone Nigam Ltd were also interested in the deal.
- Barrak said in October 2009 that Zain had halted talks to sell its African assets to appease the potential buyers of the stake. The final deal was expected to be signed within four months of the announcement, but Al-Kharafi Group said in January 2010 that economic uncertainties had delayed the deal.
- Zain's African operations targeted to be sold by Al-Kharafi Group, are spread across twelve countries spanning west and central Africa, including Burkina Faso, Chad, Malawi, Madagascar, Uganda, Congo, Gabon, Niger, Kenya, Zambia, Nigeria, and Tanzania,

### Value of the deal

- Zain's total outstanding shares number 4.3 billion, of which 46% is equivalent to approximately 1.98 billion shares. The announced transaction value was USD 13.7 billion, implying a price of KWD 1.96 per share (USD 6.9/share) compared to a current price of KWD 0.88 per share (USD 3.1/share), a potential upside of 122.7%.
- The deal is valued at an EV/EBITDA multiple of 9.22x, which is considered, according to our estimates of the most recent M&A deals in 2009, to be expensive, as the average EV/EBITDA multiple for M&A deals undertaken in 2009 was 8.84x.

### Analyst Comment

- The resignation of Barrak appears to be a result of Al-Kharafi Group's choice to sell a 46% stake of the company without involving the company's management.

Recommendation

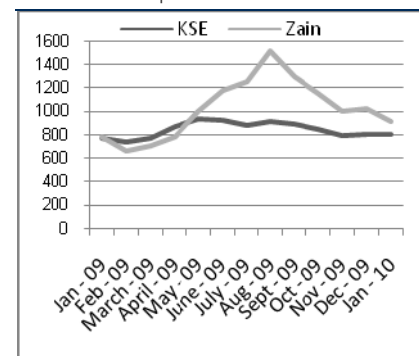
## Not rated

#### Stock Data

Price (as of Feb 4 2010) (KWD)	0.9
Target Price (KWD)	N/A
Upside / Downside	N/A
Market Cap (KWD mn)	3,782
Market Cap (USD mn)	13,127
Number of Shares (mn)	4,297
52 Wk Av. value traded (KWD mn)	12,490
Reuters / Bloomberg	Zain KW / Zain KK
Exchange Rate (KWD / USD)	3.46

Source: Reuters, Rasmala Research

#### Performance Graph



Source: Reuters, Rasmala Research

12m High / Low (KWD) 1.6 / 0.6

	1M	3M	12M
Zain	-10.8%	-21.6%	16.7%
KSE Index	0.3%	-4.4%	3.9%

Source: Reuters, Rasmala Research

#### Major Shareholders

	(%)
Kuwait Investment Authority	24.61
Al-Kharafi and Sons Company	11.41
Free Float	63.96

Source: Company data

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- The matter has been prolonged since September 2009 with no obvious resolution yet, which could be another reason that led to the resignation of Barrak.
- We believe that investor confidence could become an issue in the short to medium-term, given that Barrak has been at the heart of Zain Group's aggressive expansions for several years.
- Al-Kharafi Group said in January 2010 that the deal was to be delayed due to economic uncertainties; however, a change in Zain Group's management could mean a smoother execution of the 46% stake-sale that Al-Kharafi Group was pursuing, given that the deal that did not involve Zain's original management team.
- We have attempted to contact Zain Group for more information regarding the implications of Saad Al-Barrak's resignation however they were unavailable for comment.

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