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Profitability and Growth Analysis by Using Financial Indicators for Zain Iraq Com

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Abstract. The objective of this study is to analyze the profitability and growth trend of Zain Iraq Mobile Telecommunications Company to identify where the indicators are unstable in order to recommend correcting these deviations. The indicators of profitability and growth were based on measuring the financial performance of the company which are the most important indicators on the decisions of the company was reliance on those ratios, which included the study period between 2007 to 2016. The performance of the institution has been tested according to these indicators to ensure that the company is going through a period of decline in profits and sales growth. This indicates the extent to which the indicators used in the analysis of the performance of the company.

Keywords. financial ratios, profitability ratio, growth ratio, gross profit

1. Introduction

Achieving profits is the primary goal for companies, as the achievement of such profits can maintain the continuity and survival, financial performance. Financial performance is defined as the extent to which activities contribute to the creation of value or effectiveness in use financial resources available through financial targets with minimal financial costs [1]. It is also known as a tool to identify the financial status of the enterprise at the moment as a whole or to a side assigned to the performance of the enterprise or to the performance of its shares in the market on a specific day and a certain period [2]. It is also known to the extent that the institution is successful in utilizing all the resources available to it from financial resources - The most effective exploitation and achievement of the objectives set by the administration [3]. It is also the ability of the institution to achieve its financial goals and the lowest possible cost of any investigation the financial balance and the provision of liquidity to pay their obligations and achieve a low return rate of good [4].

The importance of financial performance is generally observed in that it aims at evaluating the performance of companies from several angles. In a way that serves data users with financial interests in the company to identify strengths and weaknesses in the company and benefit from the data provided by financial performance to rationalize financial decisions [5].

That financial performance can bring investors the following objectives [6] :



the activity of the company and its financial performance and also helps to follow up economic and financial conditions surrounding and assess the impact of financial performance tools from profitability

Liquidity, activity, indebtedness and dividends on the stock price.

2 - helps the investor in the process of analysis and comparison and interpretation of financial data and understanding of interaction between the financial statements to make the appropriate decision on the conditions of companies and from which the main subject

Financial performance is to obtain information that is used for appropriate analysis of decision-making Choose the best stock from time to time through corporate financial performance indicators.

1.2 Method of measuring financial performance

To measure the financial performance of any company, financial ratios are classified into three related groups The profitability ratios and the second related to the ratio of administrative performance and the third ratios of debt and liquidity. The total value of financial performance is determined as follows [7]:

Financial Performance = Profitability Ratio + Administrative Performance Rate + Debt Rate and liquidity

We find that profitability reflects the amount of the organization to generate profits in total and not for each investment [8]. Profitability is a key objective and is essential for the survival, sustainability and goal of the company contributors. It is the relationship between the profits made by the company and the investments Contributed to the achievement of these profits, so we find that a great effort directed at the optimal use of resources Which are available to achieve the best possible return on equity of the shareholders at least as much as possible [9].

1.3: The goal of profitability

The goal of profitability is one of the fundamental objectives of all companies and is essential for their survival and its continuation as the goal of profit is essential for investors an important indicator of creditors and an important tool for measuring the efficiency of management in the use of its resources, and to achieve a goal Profit The financial manager must obtain the required funds with minimal costs risk and invest these funds in a way that enables the company and as one unit to achieve at least a return at the level of what shareholders (owners) can collect from investing their money in Other projects exposed to the same degree of risk [10]

1.4 Profitability ratios

The management of the establishment, its investors and its lenders by the voluntary force of the enterprise is the most important measure of governance on the efficiency of the management and its ability to use the resources available and the investor interested in the return realized on his investment in the enterprise compared to the return in competing companies and the lender interested in the profitability of the establishment) as a secured source for repayment of loan obligations (Tim The sound funding policy of the institution necessitates maintaining a sort of balance between internal sources And external as well as taking into account the capacity when expanding dependence on external financing is associated External financing with internal a number of elements which are laying the expansion of external financing

Among these elements [11].

- Ability to repay.

1.5 Types of profitability ratios

1 - sales profitability ratios

Net profit is the overall measure of the organization's success and management efficiency and hence it was important Analysis of the income list to determine the extent to which the profit objective of the institution can be achieved Of the financial position analysis and that the income statement analysis is important in the long-term analysis of the business The income statement prepares a report for a certain period within periods that complement one another respectively, towards the future of the institution and the analysis of the income statement begins by extracting the percentages of each item from existing items to net sales and ratios are reported in the use of financial indicators to analyze the results the profitability ratios are indicators of the extent to which the institution can generate profits from Sales or assets available to them [12].

2 - coverage ratios

It measures the extent to which the institution can repay its fixed financial burdens, such as interest on debt due rents and Loan Repayment Reserves These ratios are an indicator of financial risk the Company is exposed to and is therefore considered to be of interest to the lenders and will subsequently be reviewed by me it measures the extent to which the institution can repay its fixed financial burdens, such as interest on debt due rents and loan Repayment reserves these ratios are an indicator of financial risk the company is exposed to and is therefore of importance to the lenders and will be reviewed later Indicators[13].

$$\text{Interest rate} = \text{net profit before interest and tax} / \text{interest}$$

The use of the indebtedness of the institution to bear the burdens of a fixed representative benefits and above the institution Interested in knowing how often the management can cover these costs from its realized profits this is achieved by recognizing the interest coverage ratio by dividing net profit before interest and taxes on interest the ratio of return on the right of ownership: Since property rights are subject to change from year to year, especially reserves, they prefer an average The right of ownership to be a more accurate indicator of the reality and according to the right of return index ownership in accordance with the following relationship

$$\text{Return on Equity} = \text{Net Profit} / \text{Equity}$$

The most important and most common ratios for this group:

1. Gross profit margin (gross profit)

These ratios indicate management efficiency in pricing and generating sales and controlling costs .It is calculated by dividing the gross profit (sales - the cost of available goods)[14]

2. Operating profit margin ratio

(calculated from: This measure measures the overall operational efficiency of the company) the method of dividing operating profit on net sales and the higher the percentage the better [11]

2. Hypothesis of the study

The process of maximizing profits is a fundamental goal of companies, so that their pursuit is constantly behind profitability enables it to maintain its continuity and consolidate its financial position, which positively effects on their ability to face risks and challenges and the



deterioration of their financial position and erosion of their ownership rights.

The study is based on the following hypothesis That the use of profitability ratios and indicators in the analysis of the financial statements of company sample research for a period The specific study will reveal the strengths and weaknesses of this company.

3. Importance of the study

The importance of this research is as follows:.

- contribute to highlighting one of the important topics related to the factors affecting profitability of banks in order to enhance its profitability, which provides a source of reassurance to investors and a confidence to the official authorities and to enhance the investment environment
- Contribute to the provision of useful information to help decision makers in the Monetary Authority and other parties relationship to help support profitability requirements and achieve growth and progress.

4. Objectives of the study

This research aims to achieve the following purposes:

- Identify the factors affecting the profitability of Zain company.
- To identify the sources of the company's funds and uses in order to identify the reality of these sources the methods used and the effect on the performance.
- if the Exiting recommendations are applied it will save profits to the company and improve its profitability by addressing key causes that lead to loss or reduce profitability.

The study sample - The study was conducted in Zain Telecommunications between 2007 -2016.

5. Analysis of the financial statements of Zain Iraq Mobile Company using some financial indicators, which is profitability and growth.

In this case, we will analyze the financial performance of Zain Company. Our analysis is a partial analysis in the sense that we analyzed the figures and financial ratios of the indicators for profitability and growth only without other indicators due to the financial statements are not available in detail, but these two indicators are the most important financial indicators.

As this analysis makes us measure the company's performance which has been changed during the period 2007 - 2016 depending on the historical standard.

5.1 Profitability Indicators

Profitability' ratio is an indicator of the company's ability to generate profits from sales.

Profit is the measure of the effectiveness of the company's investment, financing and operating policies, as well decisions' taken regards to these policies, and the profitability ratios are given initial attention by banks that grant loans to the company, As well as for investors in securities on the stock exchange.

5.1.1 the margin of gross profit for sales

Gross profit margin is calculated by dividing gross profit by net sales

$$\begin{aligned}
 \text{Gross profit margin of sales} &= \text{Gross profit} / \text{Sales} \times 100\% \\
 &= \text{Sales} - \text{Cost of goods sold} / \text{Sales} \times 100\%
 \end{aligned}$$

This indicator helps us measure the total profit achieved from each "JD" enters the company in the form of sales after deducting the production expenses. And it indicates the success of the company in controlling the cost elements in order to generate the greatest amount of profits resulting from the sales.

Table (1) shows "growth rate of gross profit margin" for sales during the period 2007-2016 measured by USD.

Table (1). Shows the Evolution of Gross Profit Margin of Sales during the Period 2007-2016 By USD/Million

years / Statement	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales	662541	1529867.4	1585374.4	1772090.5	1910385.6	2046200.6	2059782.1	1891017.2	1439639	1279023
Goods sold Cost	204313	436970	434726.1	524009.7	573021.2	651439.6	669036.5	638921	425160	416893
Gross profit	458228	1092897.4	1150648.3	1248080.8	1337364.4	1394761	1390745.6	1252096.2	1014479	862130
Gross margin of sales	%69	%71	%72	%70	%70	%68	%67	%66	70%	%67

Representation of the development of gross profit margin for sales as shown in Figure (1)

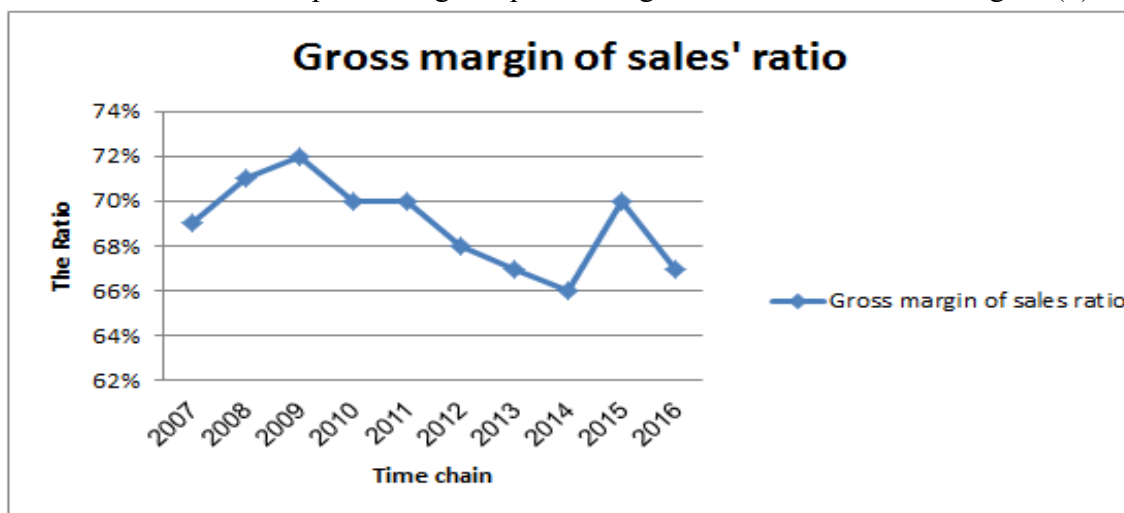


Figure (1). The Development of Gross Profit Margin for Sales



Profit Margin of Sales: We can see from the graphic representation of the growth gross profit margin for sales that the ratio Range of the **evolution of gross profit margin of sales** are between 66% to 72%. If we assume that the ratio is 70% for all the years, this means the company achieves 70% for every JD it receives in the form of sales. Where the percentage was 69% in 2007 and then achieved growth in 2008 to reach 71% and grow again in 2009 to achieve 72% and then remain at 70% in 2011 - 2010, then decrease in 2012 to 68% to decline the percentage again to 67% in 2013 and continue to decline in 2014 to reach 66% and then return to rise in 2015, where it reached 70% and then decline to 67% at the end of 2016.

This means that the company has been conservative not to increase the overall burden and it almost control at the cost's volume during the years 2008-2009, 2011-2010 to decline after that due of increased costs and burdens during the years 2014,2013,2012.

Thus, the increase in costs means lower gross profit margin of sales In 2015, the ratio was balanced, reaching 70%, then falling by 2016 to 67% due to increased costs.

5.1.2 Profit margin of operations

Operating profit margin is calculated from net profit before interest and tax, divided by sales

$$\begin{aligned} \text{A profit margin of operations} &= \text{Net profit before interest and tax/sales} \times 100\% \\ &= \text{Sales} - \text{Cost of goods sold} - \text{Operating expenses/ Sales} \times 100\% \end{aligned}$$

This indicator helps us measure the overall operating efficiency of the company. This ratio indicates the percentage remaining for each JD of sales after deducting both of goods sold cost and the operating expenses .

The margin of operations represents the benefits appear from the "EBITDA" operating activity .

Table (2) showing the evolution of the profit margin of operations during the period from 2007 - 2016 after transfer from USD to the IQD.



Profit Margin of Operations During the Period from 2007 to 2016 By USD/ Million

years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
the sales	662541	1529867.4	1585374.4	1772090.5	1910385.6	2046200.6	2059782.1	1891017.2	1439639	1279023
goods sold Cost	204313	436970	434726.1	524009.7	573021.2	651439.6	669036.5	638921	425160	416893
Operating expenditure	246238.5	426341	359024	403075.3	457873.7	490115	547275.4	569123.9	447599	397997
Profit before interest and tax	211989.5	666556.4	791624.3	845005.5	879490.7	904646	843470.2	682972.3	566880	464133
Profit margin of operations	%32	%44	%50	%48	%46	%44	%41	%36	%39	%36

Figure (2) representation of the development of the profit margin of operations

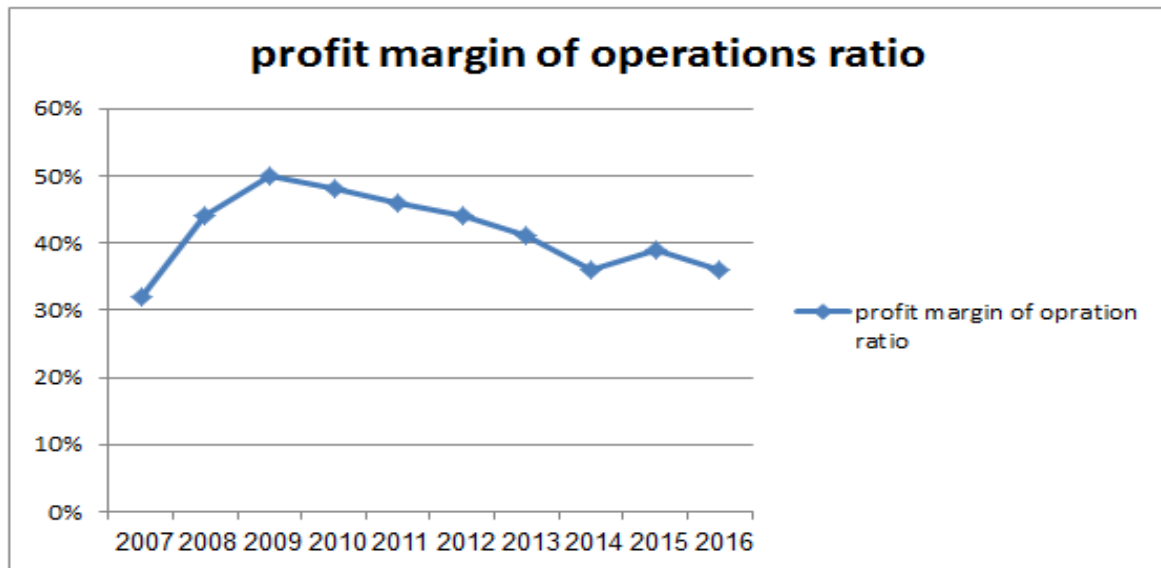


Figure (2). The Development of the Profit Margin of Operations

Result of the Growth in the Profit margin of Operations

The graph shows the growth of profit margin of the operations for each JD of the company's sales achieved a net profit before interest, tax, and depreciation by the percentage of the ratios extracted in the table of development for profit margin ratio of the operations above. Which reached 32% in 2007, the period in which the company obtained the operating license.

in 2008 due to the increase in EBITDA (Earnings before interest, tax, depreciation and amortization).

The increase in the company's performance strength and the provision new services such as: transfer of balance and many other services, was lead to rise again in 2009 to reach the highest level of 50% as a result of the signing of several major government contracts with a number of international oil companies, which contributed to improving the image of Iraq's economy to attract foreign investments with the emergence of some security indicators' improvement. Then decreased To 48% In 2010 due to Iraqi government' grant a fourth national license to "Korek company" to encourage further liberalization of the market, which is led to strong competition between mobile operators, which in turn increased costs and then decreased to 46% in 2011, due it paid 500 Million USD to the Iraqi government during the same year. As a final payment of license fees to drop the ratio again to 44% in 2012, despite the increase in sales revenues and EBITDA, but the cost of goods sold is also increased as a result of the geographical expansion of the company after that fell again to 41% Year 2013. The reason of the decline in profits before deduction, interest, taxes and depreciation is mainly due to the impact of foreign exchange at the time and the increase of costs. In 2014 fell to 36% due to social unrest as a result of the war in the northwestern part of Iraq, The high costs of operating for network and security instability continued of those areas to the same problem in 2015 lead to the increase in operating costs, in addition to high levels of price competition with other companies to 39%.

By the end of 2016 was also 36% for the same reasons of years 2014 and 2015 combined, that cannot avoid being a challenge beyond the company's potential and its ability.

5.1.3 margin ratio of net profit

In order to evaluate operating decisions or operations and financing decisions, we need to calculate the ratio of net profits to sales calculated on the basis of net profit after interest and sales taxes as follows:

$$\begin{aligned} \text{Net profit margin} &= \text{Net profit after interest and tax} / \text{sales} \times 100\% \\ &= \text{Sales} - \text{Cost of goods sold} - \text{Operating expenses} - \text{Interest} - \text{Taxes} / \text{Sales} \times 100\% \end{aligned}$$

This ratio helps us clarify the extent which the net profit is reduced before the entity is exposed to actual losses, before of net profit after subtracting all costs becomes negative.

Table (3) shows the development of the net profit margin for the period 2007 - 2016.



Table (3). Explain the Evolution of Net Profit Margin Ratio for the Period from 2007 – 2016

years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Statement										
the sales	662541	1529867.4	1585374.4	1772090.5	1910385.6	2046200.6	2059782.1	1891017.2	1439639	1279023
Net profit after interest and tax	55034.6	259820	340482.3	378038.1	411106.1	435907.1	426222.9	302336	144082	(5905)
margin ratio of net profit	%8.3	%16.98	%21.47	%21.33	%21.52	%21.3	%20.69	%15.98	%10	(%0.46)

Figure (3) representation to the development for the margin of net profit:

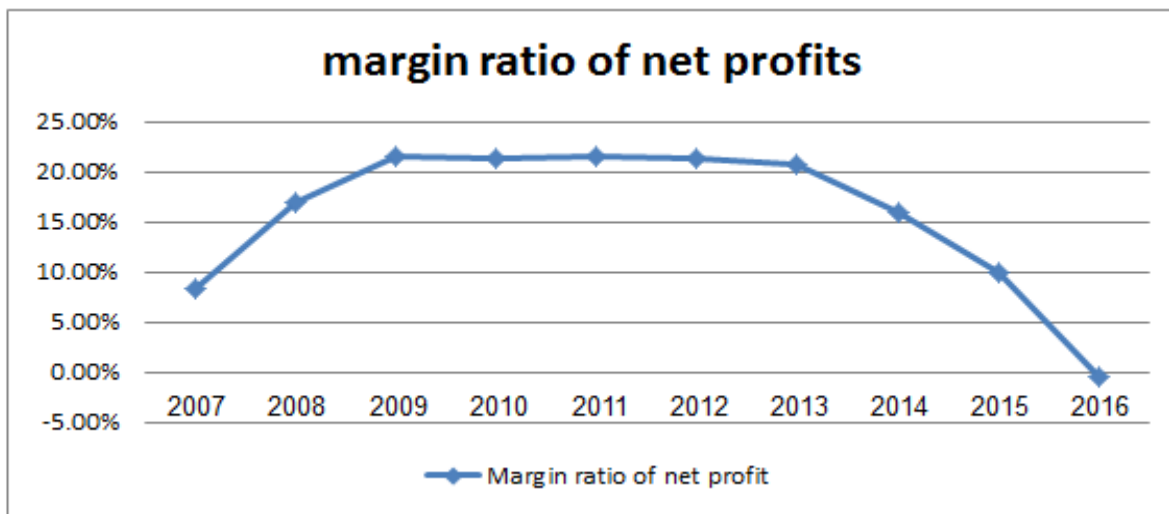


Figure (4) The Development for the Margin of Net Profit:

Results Evolution of Net Profit Margin Ratio:

This ratio indicates the net profit provided by each JD of sales to the company after deduction of all expenses and revenues for sales, operations and conversion.

Where the percentage in 2007 was 8.3% and in 2008 it was 16.98% and remained in the province of 2009, 2010, 2011, 2012, 2013 on the ratio of almost 21% and then decrease to become in 2014 15.98% and 2015.

In 2016, net loss was \$ 5 million to 0.46%. The lower ratio means that there is a problem in financing operations, otherwise providing better revenue to offset the shortfall in income or profitability.

The indicator of the company's growth is important to the management within the company, shareholders and external creditors.

Growth rates measure the extent of the company's expansion and progress over time. Growth is a desirable goal. It can expand the company, develop its products, improve its production methods, measure the growth of the company and measure the company's growth in several areas including sales, profits and selling price, etc., as the following:

$$I \frac{X1}{X0} = \frac{\Delta X}{X0} = gx = \text{Error!}$$

5.2.1 Sales growth

These ratios measure the net sales achieved during a certain financial year compared to a previous financial year.

5.2.2 Net profit growth

This ratio measures the net profit achieved during a particular financial year compared to a previous financial year.

Table (4) shows the growth rates of Zain Iraq Company during the period 2007 - 2016

Table (4). Shows the Growth Rates of Zain Iraq Company During the Period 2007-2016

Sales growth ratio	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Growth rate	(%11)	(%24)	(%8)	%1	%7	%8	%12	%4	%131	%60
Net profit	(%104)	(%52)	(%29)	(%2)	%6	%9	%11	%31	%372	%149

Source: Relying on company documents

Figure (4) representation for development of sales growth ratios of Zain Iraq Telecom during the period 2007 - 2016nts.

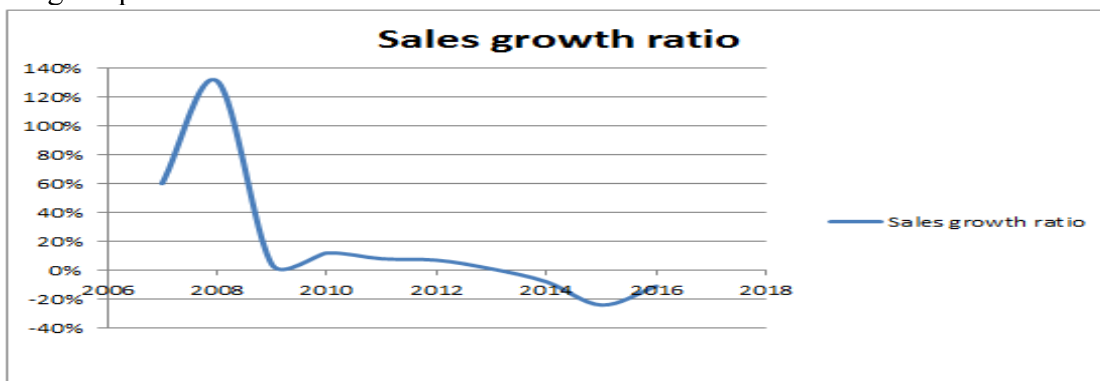


Figure (4) Shows the Development of Sales Growth Ratios of Zain Iraq Telecom During the Period 2007 - 2016nt

Sales growth increased significantly in 2008 compared to 2007, but also declined significantly in 2009, followed by a declining chain from 2010 to 2016 due to a drop in sales.

Figure (5) representation of the development of net profit growth rates of Zain Iraq Company during 2007 – 2016

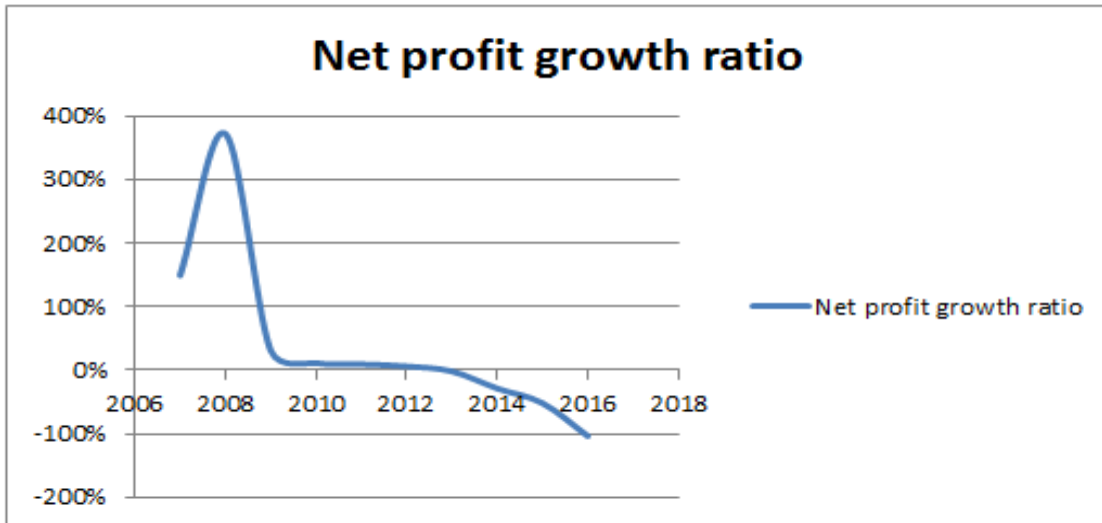


Figure (5) Shows the Development of Net Profit Growth Rates of Zain Iraq Company During 2007 – 2016

Result of the Development of Net Profit Growth Rates:

It can be seen that the growth rate of net profit for 2007 reached 149% and increased to 362% in 2008 and then began a decreasing chain from 2009 to 2016 due to the low change in net profit.

5.3 Comparative financial analysis of Zain Iraq using profit and growth indicators and analysis of the general direction of the company and their relationship with time.

We can draw the figures we need to calculate the profit and growth indices to assess the performance of the company according to these indicators, which are shown in the table (5).

Table (5). Financial Data Table Based on Financial Analysis.

Key Financial Figures	years									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
the sales	662541	1529867.4	1585374.4	1772090.5	1910385.6	2046200.6	2059782.1	1891017.2	1439639	1279023
goods sold' cost	204313	436970	434726.1	524009.7	573021.2	651439.6	669036.5	638921	425160	416893
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Profit before interest and tax	211989.5	666556.4	791624.3	845005.5	879490.7	904646	843470.2	682972.3	566880	464133
Net profit after interest and tax	55034.6	259820	340482.3	378038.1	411106.1	435907.1	426222.9	302336	144082	(5905)

Thus, we can summarize the calculation of the required financial ratios as shown in table (6).

table (6) summarize the calculation of the required financial ratios

The ratio	Calculate the percentage of the time chain									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Profitability Ratios										
Profit margin ratio	69%	71%	72%	70%	70%	68%	67%	66%	70%	67%
Profit margin of operations	32%	44%	50%	48%	46%	44%	41%	36%	39%	36%
Net profit margin ratio	8.3%	16.98%	21.47%	21.33%	21.52%	21.3%	20.69%	15.98%	10%	(0.46)%
Growth rates										
Sales growth	60%	131%	4%	12%	8%	7%	1%	(8)%	(24)%	(11)%
Net income growth	149%	372%	31%	11%	9%	6%	(2)%	(29)%	(52)%	(104)%

Figure (6) shown analysis of to the trend for the profitability ratios over time for Zain Iraq Company

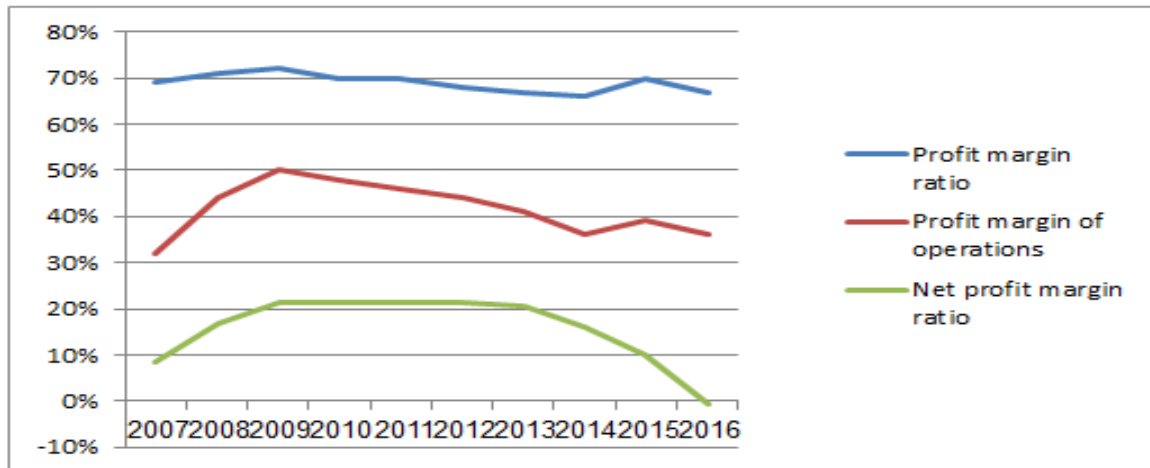


Figure (6). analysis of to the trend for the profitability ratios over time for Zain Iraq Company

Figure (7) shown analysis of the trend for time growth ratios of Zain Iraq Company

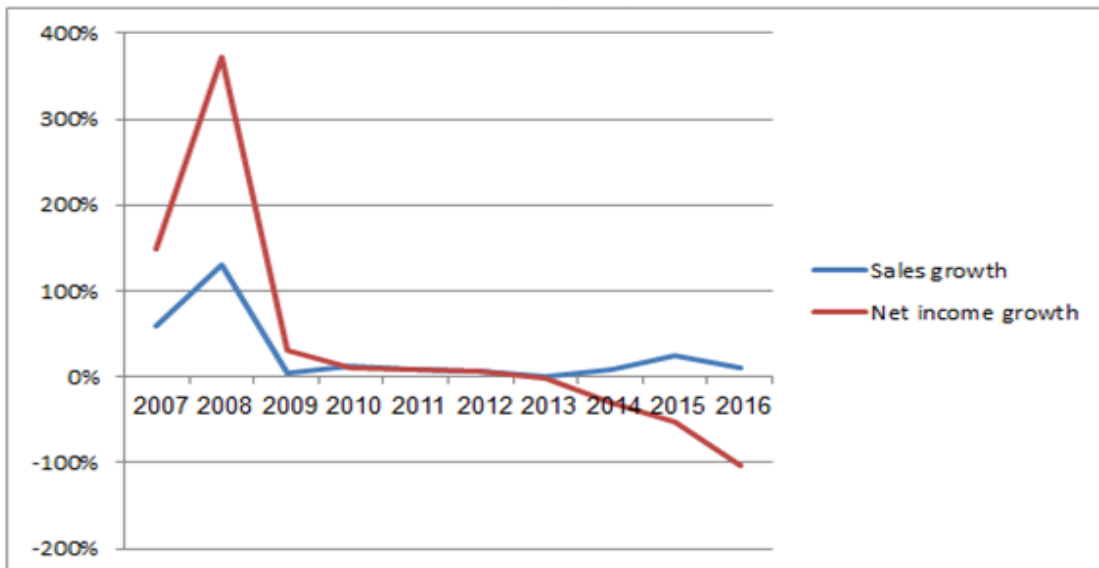


Figure (7). Analysis of the Trend for time growth ratios of Zain Iraq Company

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