



EVENT FLASH

Better than expected results on higher gross margins

Extra reported a better than expected set of 2Q16 results, with net income increasing 2.7% YoY to SR12.2mn. This is higher than the NCBC estimates of a net loss of SR4.7mn. With sales being in-line with our estimates, we believe the variance in earnings came from higher gross margins and lower than expected Opex. We believe the gross margin expansion is a key improvement that supports the overall outlook of the company, if sustained. However, weakening discretionary spending and organic growth levels remain a concern.

- **NCBC view on the results:** Extra reported a better than expected set of 2Q16 results with net income increasing 2.7% YoY to SR12.2mn. This compares to the NCBC estimates of a loss of SR4.7mn. Sales remained flat YoY at SR880mn and came in-line with our estimates of SR915mn. We believe net income variance was mainly due to higher gross margins, as a result of lower discounts offered, and lower than expected Opex.
- Sales remained flat YoY at SR880mn, coming in-line with our estimates of SR915mn. Although the company opened three new stores YTD (42 stores vs. 39 in 2Q15), weak LFL led to a limited sales growth. Extra's sales growth was lower than the sector average of 10.2%, which we believe is due to its discretionary product nature.
- Gross margins expanded by 52bps YoY to 16.3%, higher than our estimates of 14.5%. As a result, gross profits increased by 3.4% YoY to SR143mn. We believe the gross margin expansion was supported by lower discounts offered.
- Opex grew by 4.5% YoY to SR131mn due to store openings. This growth in Opex led to a decline of 7.9% YoY in EBIT to SR12.1, with EBIT margins contracting by 12bps YoY to 1.4%. However, we believe higher other income and lower Zakat led to the growth of 2.7% YoY in net profit. This compares to an earnings decline of 6.8% YoY for all covered Retail stocks.
- We remain Overweight on Extra with a PT of SR45.0. Improvement in gross margins is a key positive and supports the outlook of the company. However, weak discretionary spending and LFL remain a concern.

2Q16 Results Summary

SR mn	2Q16A	2Q15A	% YoY	2Q16E	% Var^
Sales	880	880	0.1	915	(3.8)
Gross income	143.2	138.5	3.4	132.6	7.9
Operating income	12.1	13.1	(7.9)	(3.7)	NM
Net income	12.2	11.8	2.7	(4.7)	NM
EPS (SR)	0.34	0.33	2.7	(0.13)	NM

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts

OVERWEIGHT

Target price (SR) 45.0

Current price (SR) 27.3

STOCK DETAILS

M52-week range H/L (SR)	78/22
Market cap (\$mn)	262
Shares outstanding (mn)	36
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	4.2	4.7	(65.1)
Rel. to market	4.3	9.0	(34.7)

Avg daily turnover (mn)SR	US\$
3M	20.0 5.4
12M	21.3 5.7

Reuters code	4003.SE
Bloomberg code	EXTRA AB
	www.extrastores.com

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	19.9	NM	15.7
P/B (x)	1.8	1.9	1.8
EV/EBITDA (x)	9.1	24.6	7.7
Div Yield (%)	3.4	0.0	3.7

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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