United Electronics Company

Retail – Industrial
EXTRA AB: Saudi Arabia
08 April 2014

الراجحي المالية
Al Rajhi Capital

US$0.943bn	40%	US$3.812mn
Market cap	Free float	Avg. daily volume

Target price	116.3	-0.2% over current
Consensus price	116.7	0.2% over current
Current price	116.5	as at 7/4/2014

Research Department
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Existing rating

Underweight	Neutral	Overweight

Extra
Beats our conservative estimate

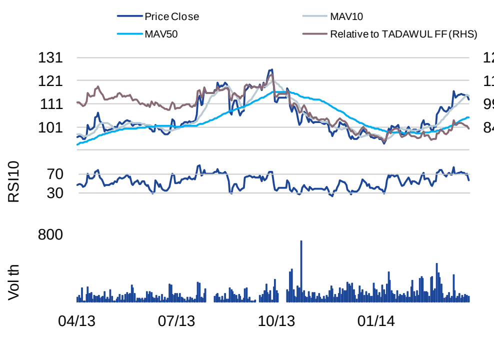
United Electronics Company (Extra) delivered a good set of Q1 2014 results, reporting double-digit earnings growth, recovering from low single digit rates reported for the last couple of quarters. We had kept a conservative estimate for the quarter following the weakness in certain market segments; nevertheless, the company was able to beat our top and bottom-line estimates by around 7-10%. Taking into account the management's inputs and the latest results, we have revised our estimates, and raised our target price to SAR116.3 per share. We reiterate our Neutral rating on the company as the stock has already reacted to the earnings, gaining more than 3% yesterday.

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

Performance



Source: Bloomberg

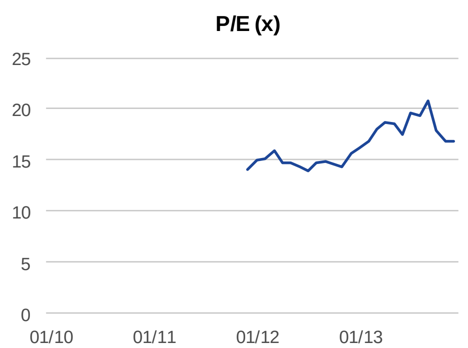
- **Revenues:** 1Q Revenues grew 11.6% y-o-y to SAR807mn, surpassing our SAR755mn estimate. The company saw all its segments reporting an increase in sales, supported by the roll-out of new stores (37 at the end of March 2014 from 32 in March 2013).
- **Gross and operating margin:** Extra's gross profit rose 14.4% y-o-y to SAR144.8mn (vs. our SAR129.1mn estimate). Gross profit margin improved around 44bps to 17.9%, higher than our estimate of 17.1% due to a change in sales mix. The company's operating profit improved by 13.9% y-o-y to SAR30.6mn, surpassing our SAR27.2mn estimate. The operating profit margin expanded marginally to 3.8%, ahead of our estimate of 3.6%, indicating higher operating costs, which partially offset the higher gross profit margin.
- **Net profit:** Extra's Q1 net profit grew 11.6% y-o-y to SAR29.3mn, ahead of our SAR26.4mn estimate. Net profit margin remained flat at 3.6%, suggesting higher-than-expected interest and zakat charges, which nearly offset the impact of higher gross profit margin.

Earnings

Period End (SAR)	12/12A	12/13E	12/14E	12/15E
Revenue (mn)	3,015	3,480	4,096	4,687
Revenue Growth	22.5%	15.4%	17.7%	14.4%
EBITDA (mn)	192	211	240	275
EBITDA Growth	21.4%	10.1%	13.7%	14.6%
EPS	5.29	5.89	6.59	7.46
EPS Growth	20.1%	11.4%	11.9%	13.3%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Figure 1 Extra: summary of Q1 2014 results

(SAR mn)	Q1 2013	Q4 2013	Q1 2014	% chg y-o-y	% chg q-o-q	ARC est
Revenue	723	914	807	11.6%	-11.7%	755
EBITDA	35.4	70.6	Not disclosed	n.a.	n.a.	37.2
EBITDA margin (%)	4.9%	7.7%	n.a.			4.9%
Operating profit	26.9	60.3	30.6	13.9%	-49.2%	27.2
Net profit	26.2	58.4	29.3	11.6%	-49.9%	26.4

Source: Company data, Al Rajhi Capital

Conclusion: Extra's Q1 numbers have surpassed our estimates, and the stock has already reacted strongly to the encouraging results, surging more than 3%. The strong numbers indicate the improving market situation for Extra. In our earlier conversation with the management, the company attributed its dismal performance in the second half of 2013 to several negative factors. The government's crackdown on illegal foreign workers coupled with the cut in Haj visas slowed down business activities. In addition, the sharp depreciation in currencies of emerging markets like India (and the imposition of import duty on TV panels in India) also hit sales. The management indicated that the situation has improved in the first quarter of 2014, although it is yet to resume its growth trajectory. Nevertheless, given the volatile market, it seems that management is not comfortable providing a guidance for 2014 as yet. Taking into consideration management inputs and the latest company results, we have revised our estimates for Extra, based on which we have raised our target price to SAR116.3 per share, which is in line with the current price, after gaining more than 3% today. Hence, we maintain our Neutral rating on Extra.

Major Q4 Developments

Extra opens an investment portfolio

Extra announced in February that it has opened an investment portfolio, which will be managed by Saudi Fransi Capital. The objective of the portfolio is to diversify the company's income sources. The portfolio will be financed by Extra's internal resources and local banks. The portfolio will solely invest in initial public offers (IPOs).

Disclaimer and additional disclosures for Equity Research

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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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