



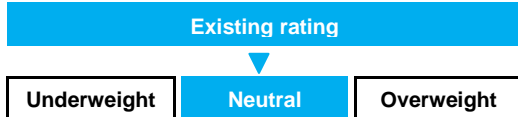
US\$0.998bn Market cap	40% Free float	US\$3.138mn Avg. daily volume
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Target price	120.6	-1.6% over current
Consensus price	122.8	+0.2% over current
Current price	122.6	as at 7/8/2014

Research Department

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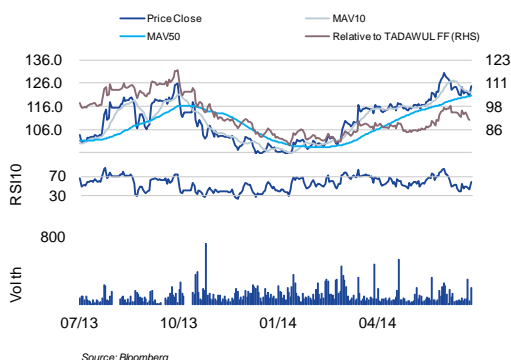


Extra Meets expectations

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.

Performance



Earnings

Period End (SAR)	12/12A	12/13A	12/14E	12/15E
Revenue (mn)	3,015	3,388	3,886	4,414
Revenue Growth	22.5%	12.4%	14.7%	13.6%
EBITDA (mn)	192	210	227	258
EBITDA Growth	21.2%	9.9%	7.8%	13.7%
EPS	5.29	5.58	6.25	7.03
EPS Growth	20.1%	5.5%	12.1%	12.5%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

United Electronics Company's (Extra) Q2 2014 results were in line with our estimates, with revenue and net profit coming in at SAR984mn (+1.3% y-o-y) and SAR53.8mn (+0.9% y-o-y), respectively. The company's y-o-y growth was flat this quarter due to the high base effect of Q2 2013, when it conducted its 10th Year Anniversary sale event (which led to a top-line growth of 34% y-o-y). Excluding the sales from this event, Extra's top-line jumped 27.6% y-o-y this quarter, as demand was spurred by the 2014 FIFA World Cup as well as new product launches. The consumer durables market appears to be gradually improving, though it is yet to regain its earlier trajectory. Updating the company's valuation, we have raised our target price on Extra to SAR120.6 per share and reiterate our Neutral rating on the company.

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

- Revenues:** Extra's revenues rose by a marginal 1.3% y-o-y to SAR984mn, coming in line with our SAR999mn estimate (consensus estimate SAR945mn). The company's top-line growth has been slow this quarter due to the high base effect of Q2. In addition, the store expansion has also slowed down, with only three new stores being opened over the last four quarters.
- Gross and operating profit:** Gross profit came in at SAR168mn (+4.8% y-o-y) as compared to our estimate of SAR173mn. Gross profit margin improved by about 60bps y-o-y to 17.1% (our estimate 17.3%). Operating profit came in at SAR56.1mn (+2.2% y-o-y), in line with our estimate of SAR56mn.
- Net profit:** Net profit was almost flat at SAR53.8mn marginally below our estimate of SAR55mn, but higher than the consensus estimate of SAR47.6mn. Net profit margin was also flat at 5.5% in line with our expectations.

Figure 1 Extra: summary of Q2 2014 results

(SAR mn)	Q2 2013	Q1 2014	Q2 2014	% chg y-o-y	% chg q-o-q	ARC est
Revenue	971	807	984	1.3%	21.9%	999
Gross profit	160.3	144.8	168.0	4.8%	16.0%	173.0
Gross profit margin (%)	16.5%	17.9%	17.1%			17.3%
Operating profit	54.9	30.6	56.1	2.2%	83.3%	56.4
Net profit	53.3	29.3	53.8	0.9%	83.9%	55.0

Source: Company data, Al Rajhi Capital



Conclusion: The company had held its 10th Year Anniversary sale event in Q2 2013 that led to a sharp jump in revenues during that quarter. However, excluding the sales from that event, Extra's top-line jumped 27.6% y-o-y in Q2 2014. We believe events like the 2014 FIFA World Cup as well as the new product launches have helped Extra's top-line growth this quarter. It was a strong performance by Extra to improve on its Q2 2013 results, without any discount sale. Extra's Q2 result suggests that the consumer durables market is gradually improving after a sharp slowdown in the second half of 2013. We expect the consumer durables market to continue to pick up in the second half of the year. Taking into account the latest developments and updating the company's valuation, we have raised our target price on Extra to SAR120.6 per share. As our target price is marginally below the company's current market price of SAR122.6, we reiterate our Neutral call on Extra.

Major Developments

Dividend of SAR1 per share for Q1 2014

In May, Extra paid a dividend of SAR1 per share for Q1 2014, resulting in a total payout of SAR30mn. Last year, the company had not paid any dividend for the first quarter, but paid SAR1.25 per share for the first half of 2013.

Extra opens 38th store

Extra announced the opening of its store in Khamis Mushait in May 2014, taking the total numbers of Extra stores to 38. This was the only store which the company has opened this quarter. The new showroom had a total investment of SAR25mn with a selling area of 2,750 square meters.



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.

Contact us

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