

EXTRA

OVERWEIGHT
CURRENT PRICE SAR78.9

UPSIDE +15.1%
PRICE TARGET SAR90.8

COMPANY UPDATE

Consumer finance to drive growth

We upgrade Extra to Overweight with a PT of SAR90.8, due to 1) better growth prospects of consumer finance business, 2) market share gains on sector consolidation and 3) lower risk free. We expect the topline to grow at a CAGR of +6.4% over 2019-2025f while net income is expected to record a CAGR of 12.2%. Increasing construction activity is a key long-term catalyst. The stock is trading at 2021f PE and EV/EBITDA of 17.6x and 12.8x, respectively.

- Consumer finance - a key theme:** We expect consumer finance business to be a key driver for earnings and margin growth. The company is focusing more on personal loans (c50% of financing book) rather than product loans as management believes it will be the main financing method for discretionary spending. Extra's financing book increased to SAR705mn in Q3 20 from SAR137mn in Q4 19. We expect financing book to grow at a CAGR of +22.8% over 2019-2025f, translating into a growth in financing income from cSAR96mn in 2019 to cSAR322mn in 2025f (CAGR of +22.3%). Our projections include NPL ratio and cost of risk assumptions of 10% and 3.0%, respectively.
- VAT impact to normalize gradually:** VAT increase is expected to have a minimal impact on 2020 performance as pre-VAT buying and COVID-19 travel restrictions increased home essentials demand. The impact is expected to become visible in 2021f as spending on essentials is expected to take precedence over discretionary. However, we highlight that increasing construction activity might partially mitigate this impact and to be a key long-term catalyst. We project the topline to grow +2.7% yoy in 2021f vs +16.9% and +14.8% in 2019 and 2020f, respectively. Similar to 2018, we expect the impact of higher VAT to be gradually absorbed and sales growth to normalize.
- Consolidation and online sales to support growth:** We expect Extra's store expansions to be relatively muted going forward (1-2 stores/ year vs 6 new stores in 2019), taking the store count to 58 by 2025f from 50. We expect the pace of sector consolidation to increase going forward as relatively smaller players exit the market due to challenging market environment. We also expect the increasing focus on online channels to support topline growth (c14% of sales in Q3 20). We estimate 2019-2025f revenue CAGR of +6.4%.
- Upgrade to Overweight with a PT of SAR90.8:** We upgrade Extra to Overweight with a PT of SAR90.8 mainly due to better growth prospects. The stock is trading at a 2021f P/E and EV/EBITDA of 17.6x and 12.8x, lower than peer group average of 21.8x and 14.5x respectively.

Summary Financials

SAR mn	2019	2020f	2021f	2022f	2023f	2024f	2025f
Revenues	5,135	5,895	6,053	6,467	6,817	7,140	7,434
Gross Income	901	1,033	1,093	1,195	1,287	1,354	1,403
Gross margin (%)	17.6%	17.5%	18.0%	18.5%	18.9%	19.0%	18.9%
EBIT	249	327	341	400	437	467	481
EBIT Margin	4.8%	5.5%	5.6%	6.2%	6.4%	6.5%	6.5%
Net Income	206	257	269	327	364	394	410
Net margin (%)	4.0%	4.4%	4.4%	5.1%	5.3%	5.5%	5.5%
EPS (SAR)	3.43	4.29	4.48	5.45	6.06	6.57	6.83

Source: Tadawul, NCBC Research estimates

Please refer to the last page for important disclaimer

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STOCK DETAILS

M52-week range H/L (SAR)	83/43
Market cap (\$mn)	1,264
Shares outstanding (mn)	60
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	0.0	8.0	33.5
Rel. to market	(2.8)	1.8	26.4

Avg daily turnover (mn)	SAR	US\$
3M	29.3	7.8
12M	30.2	8.1

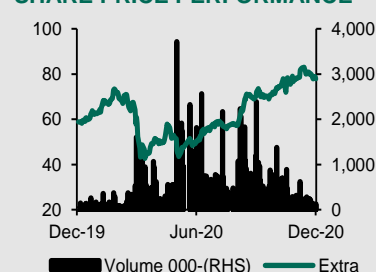
Reuters code	4003.SE
Bloomberg code	EXTRA AB
	www.extrastores.com

VALUATION MULTIPLES

	19a	20f	21f
PE (x)	23.0	18.4	17.6
PB (x)	7.2	6.1	5.3
EV/EBITDA (x)	16.8	12.9	12.8
Div Yield (%)	2.4	2.9	3.2

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

RELATIVE PERFORMANCE



Source: Tadawul

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Financials

Exhibit 1: Changes to estimates

In SAR mn, unless otherwise stated

	Old 2020f	New 2020f	% Chg	Old 2021f	New 2021f	% Chg
Revenue	5,185	5,895	13.7%	5,586	6,053	8.4%
Gross Profit	968	1,033	6.8%	1,070	1,093	2.1%
EBIT	269	327	21.6%	320	341	6.6%
Net profit	199	257	29.7%	251	269	7.1%
Price target		SAR		73.6	90.8	23.3%

Source: NCBC Research estimates

Exhibit 2: Income Statement

In SAR million, unless otherwise stated

	2019a	2020f	2021f	2022f	2023f	2024f	2025f
Sales	5,135	5,895	6,053	6,467	6,817	7,140	7,434
% change	16.9%	14.8%	2.7%	6.8%	5.4%	4.7%	4.1%
Cost of sales	4,233	4,862	4,961	5,272	5,530	5,786	6,031
Gross profit	901	1,033	1,093	1,195	1,287	1,354	1,403
% change	15.6%	14.6%	5.8%	9.4%	7.7%	5.2%	3.6%
Gross margin (%)	17.6%	17.5%	18.0%	18.5%	18.9%	19.0%	18.9%
Operating expenses	652	706	752	795	850	887	922
Opex as % of sales	12.7%	12.0%	12.4%	12.3%	12.5%	12.4%	12.4%
EBITDA	300	384	399	459	499	532	549
Change %	35.8%	28.0%	3.9%	15.0%	8.7%	6.6%	3.3%
EBITDA margin (%)	5.8%	6.5%	6.6%	7.1%	7.3%	7.4%	7.4%
Dep. & Amortization	51	57	58	59	62	65	68
EBIT	249	327	341	400	437	467	481
Change %	38.2%	31.3%	4.3%	17.5%	9.2%	6.9%	3.1%
EBIT margin (%)	4.8%	5.5%	5.6%	6.2%	6.4%	6.5%	6.5%
Finance charges	(57)	(54)	(57)	(55)	(53)	(51)	(49)
Other income, net	27.3	0.0	0.6	0.6	0.7	0.7	0.7
Pre-tax profit	219	273	285	346	385	416	433
Zakat & income tax	12	15	16	19	21	23	23
Net income	206	257	269	327	364	394	410
% change	27.6%	25.2%	4.4%	21.7%	11.2%	8.3%	4.0%
Net margin (%)	4.0%	4.4%	4.4%	5.1%	5.3%	5.5%	5.5%
EPS (SAR)	3.43	4.29	4.48	5.45	6.06	6.57	6.83

Source: NCBC Research estimates

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Exhibit 3: Balance Sheet

In SAR million, unless otherwise stated

	2019a	2020f	2021f	2022f	2023f	2024f	2025f
Cash and cash equivalents	103	247	337	217	220	325	494
Other current assets	1,324	1,395	1,488	1,666	1,802	1,901	1,972
Total current assets	1,427	1,642	1,825	1,883	2,022	2,226	2,466
Property and equipment	477	463	464	464	462	464	466
Other non current assets	724	848	1,029	1,231	1,347	1,407	1,428
Total non-current assets	1,208	1,317	1,499	1,701	1,815	1,878	1,901
Total assets	2,635	2,960	3,325	3,584	3,837	4,104	4,367
Murabah Finance	400	400	630	630	630	630	630
Other current liabilities	925	1,047	1,061	1,109	1,146	1,182	1,214
Total current liabilities	1,325	1,447	1,691	1,739	1,776	1,812	1,844
Medium term loans	0	80	80	130	180	230	280
Other liabilities	650	650	652	657	661	664	666
Total non-current liabilities	650	730	732	787	841	894	946
Total liabilities	1,975	2,177	2,424	2,526	2,617	2,706	2,791
Share capital	500	600	600	600	600	600	600
Statutory Reserve	42	28	54	87	123	163	204
Retained earnings	130	170	262	386	512	650	788
Shareholders' funds	660	782	901	1,057	1,220	1,398	1,577
Total equity & liab	2,635	2,960	3,325	3,584	3,837	4,104	4,367

Source: NCBC Research estimates

Exhibit 4: Cash Flow Statement

In SAR million, unless otherwise stated

	2019a	2020f	2021f	2022f	2023f	2024f	2025f
Cash flow from op. (a)	69	263	110	107	264	391	475
Cash flow from inv.(b)	(91)	(52)	(99)	(103)	(106)	(116)	(120)
NOPLAT	195	267	283	342	380	411	428
WC	(6)	48	(79)	(129)	(98)	(63)	(39)
Capex	(79)	(30)	(48)	(49)	(50)	(56)	(58)
Depreciation	100	108	111	105	111	118	125
Free cash flow	135	327	191	193	268	335	382
Cash flow from fin.(c)	(87)	(67)	78	(124)	(155)	(170)	(186)
Net chg. in cash (a+b+c)	(109)	144	90	(120)	3	105	169
Cash at start of the year	211	103	247	337	217	220	325
Cash at end of the year	103	247	337	217	220	325	494

Source: NCBC Research estimates

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Exhibit 5: Key Ratios

Per share, unless otherwise stated

	2019a	2020f	2021f	2022f	2023f	2024f	2025f
Per Share Ratios							
EPS	3.4	4.3	4.5	5.5	6.1	6.6	6.8
FCF per share	2.3	5.4	3.2	3.2	4.5	5.6	6.4
Cash EPS	4.3	5.2	5.5	6.4	7.1	7.6	8.0
Book value per share	11.0	13.0	15.0	17.6	20.3	23.3	26.3
Valuation ratios (x)							
PE	23.0	18.4	17.6	14.5	13.0	12.0	11.6
P/FCF	35.0	14.5	24.8	24.5	17.6	14.1	12.4
P/Cash EPS	18.4	15.0	14.5	12.3	11.1	10.3	9.9
PBV	7.2	6.1	5.3	4.5	3.9	3.4	3.0
EV/sales	1.0	0.8	0.8	0.8	0.8	0.7	0.7
EV/EBITDA	16.8	12.9	12.8	11.5	10.7	9.9	9.4
PEG Ratio	0.8	0.7	4.0	0.7	1.2	1.4	2.9
Profitability ratios (%)							
Gross margins	17.6%	17.5%	18.0%	18.5%	18.9%	19.0%	18.9%
Operating margin	4.8%	5.5%	5.6%	6.2%	6.4%	6.5%	6.5%
EBITDA margin	5.8%	6.5%	6.6%	7.1%	7.3%	7.4%	7.4%
Net profit margin	4.0%	4.4%	4.4%	5.1%	5.3%	5.5%	5.5%
Return Ratios							
Div per share	1.9	2.3	2.5	2.9	3.4	3.6	3.9
Div yield (%)	2.4%	2.9%	3.2%	3.6%	4.2%	4.6%	4.9%
Cash dividend coverage (%)	183%	191%	179%	191%	181%	182%	177%
Payout ratio (%)	54.7%	52.4%	55.8%	52.3%	55.3%	54.8%	56.4%
ROE	31.2%	32.9%	29.8%	30.9%	29.8%	28.2%	26.0%
ROA	7.4%	7.6%	8.1%	9.1%	14.2%	14.7%	9.4%
Liquidity ratios							
Current ratio	1.3	1.2	1.2	1.2	1.2	1.2	1.2
Quick Ratio	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Operating ratios (days)							
Inventory	79	71	71	69	69	69	69
Receivables outstanding	29	28	31	38	40	41	41
Payables outstanding	70	70	69	69	68	67	66
Operating cycle	108	99	103	107	110	110	110
Cash cycle	38	29	33	38	42	43	44
Leverage Ratios							
Debt/Equity	0.6	0.6	0.8	0.7	0.7	0.6	0.6
Net debt/ Equity	0.5	0.3	0.4	0.5	0.5	0.4	0.3
Net debt/ EBITDA	1.0	0.6	0.9	1.2	1.2	1.0	0.8
Interest Coverage ratio	4.4	6.1	6.0	7.3	8.3	9.2	9.8

Source: NCBC Research estimates

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