

Higher operating expenses pressured net income in Q1-24, despite higher than expected sales; Tasheel IPO to unlock valuation.

Extra posted net income of SAR 93.9mn in Q1-24, up 11.2% Y/Y (down 25.6% Q/Q). Excluding the effect of one-off SAR 5.5mn gain made in Q1-23, the growth in net income would stand at 18.9% Y/Y. The result is 9.3% below our expectation of SAR 103.5mn, despite higher than expected sales, due to higher operating expense. We highlight that the company is planning an IPO for its consumer finance business (Tasheel), which can unlock significant value for Extra. Trading at 2024E Fwd PE of 17.1x we maintain our “Overweight” rating with a target price of SAR 111/share, implying an upside of 12.2% from last close.

- **Net income came in below expectation, despite higher sales due to higher OPEX:** Extra posted net income of SAR 93.9mn in Q1-24, up 11.2% Y/Y (down 25.6% Q/Q). Excluding the effect of one-off SAR 5.5mn gain, owed to periodic update in the model of expected credit loss, made in Q1-23 the growth would stand at 18.9% Y/Y. The earnings are 9.3% below our expectation of SAR 103.5mn, despite higher than expected sales. The deviation can be associated to higher operating expense.
- Revenues for Q1-24 increased by 9.9% Y/Y (+1.3% on a Q/Q basis, 4.0% above AJC estimates) owed to stabilization in consumer demand in the Kingdom, growth in volumes and increase in e-commerce sales from Extra.com and new application. More over, the 19% Y/Y increase in consumer finance portfolio also supported the topline growth.
- Gross profit stood at SAR 344.3mn (up 9.7% Y/Y & down 7.6% Q/Q), above our estimate by 5.4%, due to higher sales. Gross margins remained largely unchanged Y/Y in Q1-24 at 21.8%.
- Operating profit for Q1-24 came in 2.3% below our expectation and stood at SAR 118.6mn, (up 9.1% Y/Y & down 10.7% Q/Q). OPEX grew by 10.0% Y/Y to SAR 225.75mn, the increase can be associated to the massive expansion through Panda partnership. Overall, operating margins stood at 7.5% in Q1-24, down 5bps & 101bps Y/Y & Q/Q, respectively. OPEX to revenue remained unchanged at 14.3% in Q1-24, despite healthy increase in revenues.

AJC view and valuation: Extra posted below expected net income of SAR 93.9mn in Q1-24, due to higher OPEX expense. Revenues for Q1-24 outperformed our/market's forecasts due to stronger online sales. The company is planning an IPO for its consumer finance business (Tasheel), which has seen a 19% Y/Y growth in the finance portfolio during Q1-24, despite high interest rates. The IPO can unlock significant value for Extra. Overall, our investment thesis is premised upon, strong growth in lucrative consumer finance segment and positive outlook of consumer electronic business (supported by partnership with Panda and favorable demographics). Trading at 2024E Fwd PE of 17.1x we maintain our “Overweight” rating with a revised target price of SAR 111/share, implying an upside of 12.2% from last close.

Results Summary

SAR mn	Q1-23	Q4-23	Q1-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1438.1	1559.7	1580.1	9.9%	1.3%	4.0%
Gross Profit	313.9	372.8	344.4	9.7%	-7.6%	5.4%
Gross Margin	21.8%	23.9%	21.8%			
EBIT	108.7	132.8	118.6	9.1%	-10.7%	-2.3%
Net Profit	84.4	126.1	93.9	11.2%	-25.6%	-9.3%
EPS	1.06	1.58	1.17			

Source: Company reports, Aljazira Capital Research

Recommendation **Overweight**

Target Price (SAR) 111.0

Upside / (Downside)* 12.2%

Source: Tadawul *prices as of 16th April 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E	FY25E
Revenue	6,031	6,200	6,984	7,567
Growth %	3.4%	2.8%	12.7%	8.3%
Gross Profit	1,265	1,361	1,459	1,595
Net Profit	440	391	464	550
Growth %	10.9%	-11.2%	18.7%	18.6%
EPS	5.9	4.9	5.8	6.9

Source: Company reports, Aljazira Capital

Key Ratios

	FY22	FY23	FY24E	FY25E
Gross Margin	21.0%	22.0%	20.9%	21.1%
Net Margin	7.3%	6.3%	6.6%	7.3%
P/E (x)	11.8	21.0	17.1	14.3
P/B (x)	4.9	6.5	5.5	4.6
EV/EBITDA (x)	11.3	16.6	14.8	13.3
Dividend Yield	5.7%	3.6%	3.8%	4.5%

Source: Company reports, Argaam, AJC research

Key Market Data

Market Cap(bn)	7.9
YTD%	10.3%
52 week (High)/(Low)	103.8/70.9
Share Outstanding (mn)	80.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital Research

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2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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