

Outperforms our sales and margin estimates, Tasheel posts strong growth despite higher interest rates, potential IPO can unlock valuations

Extra posted net income of SAR 118.2mn in Q3-23 (EPS: SAR 1.48), above our and consensus estimates. The above expected income is primarily owed to higher than anticipated expansion in gross margins (118bps above our forecast). The 91.7% improvement in sequential profitability (despite 17.1% Q/Q drop in sales) mainly comes on the back of absence of SAR 38mn expense associated to closure of Egypt operations that were incurred in Q2-23. Revenues are up 5.7% Y/Y mainly due to improvement in consumer finance business, large decline in sales on Q/Q basis is due to mega promotion/discounts that pulled up sales in Q2-23. Despite higher interest rates and lower consumer buying power (due to inflation), the company was able to post 18.1% growth in earnings from consumer finance portfolio in Q3-23. We highlight that the company is planning an IPO for its consumer finance business (Tasheel), which can unlock significant value for Extra. Trading at FY24E PE of 14.1x, we maintain our **"Overweight"** recommendation on Extra, with a TP at SAR 94.0/share.

- Extra posted net profit of SAR118.2mn for the Q3-23, up 25.5% Y/Y (higher by 91.7% on a sequential basis, the result is sizably above our and consensus expectation of SAR 90.2mn and SAR 92mn respectively. The above expected net profit is primarily owed to higher than anticipated expansion in gross margins (118bps above our forecast). The net profit from the consumer finance business grew 18.2% Y/Y to SAR 53.4mn, due to the robust expansion in loan portfolio. The company is not fully passing on increase in interest rates to customers to improve sales by taking a slight hit on margins. Moreover, the 91.7% improvement in sequential profitability (despite 17.1% Q/Q drop in sales) mainly comes on the back of absence of SAR 38mn expense associated to closure of Egypt operations that were incurred in Q2-23.
- Revenues are up 5.7% Y/Y (against our expectation of a 1.9% Y/Y increase) and down 17.1% Q/Q in Q3-23. On a Y/Y basis, growth is mainly attributable to improvement in consumer finance business, while the large decline on Q/Q basis is due to mega promotion/discounts that pulled up sales in Q2-23. Overall we expect sales to pick up sequentially in Q4-23, boosted by the recent launch of new I-phone 15. We estimate sales to grow at medium term (2022-25) CAGR of 3.2%, growth is mainly owed to expansion in consumer finance business. We see revenue of Tasheel growing at a CAGR of 18.5% over 2022-25 to SAR 702.4mn; we have built in a 17.8% CAGR in total loan book size over 2022-25.
- Gross profit logged in at SAR 333.1mn up 11.0% Q/Q (-2.0% Y/Y) above our estimates of SAR 310.3mn. Gross profit margins improved by 353bps and 110bps Q/Q and Y/Y to 23.0%, the massive Q/Q increase is owed to absence of discounts/promotions offered in Q2-23. We forecast gross margins to expand by 178bps to 22.8% over 2022-25, this improvement would mainly emanate from likely NIM expansion of lending business when interest rates start coming down.
- Operating profit grew by 54.3% and 13.0% Q/Q and Y/Y respectively to SAR132.2mn, while operating profit margins expanded by 59bps Y/Y (+422bps Q/Q – due to Egypt business closure in Q2-23) to 9.1%.

AJC view and valuation: Extra outperformed our net income estimates in Q3-23, driven by the revenue growth, improved gross profit margin). Moreover, despite higher interest rates and lower consumer buying power (inflation), the company was able to expand its consumer finance portfolio (earnings up 18.1% Y/Y in Q3-23). The company is planning an IPO for its consumer finance business (Tasheel), after completing required financial, legal and technical assessments. Tasheel's potential IPO can unlock significant value for Extra. Overall, our investment thesis is premised upon, strong growth in lucrative (NIMs: ~23%) consumer finance segment, positive outlook of consumer electronic business (supported by organic store expansions, partnership with Panda stores and favorable demographics) and strong FY24E dividend yield of 4.5%. We have assigned equal weight to DCF and relative valuation (using EV/sales for retail business and PB for Tasheel) to value the stock. Extra currently trades at an estimated forward PE multiple of 15.4x in FY23E and 14.1x in FY24E. We maintain our **"Overweight"** recommendation on Extra, with a TP at SAR 94.0/share.

Results Summary

SARmn	Q3-22	Q2-23	Q3-23	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1372.7	1749.7	1450.4	5.7%	-17.1%	1.9%
Gross Profit	300.2	340.0	333.1	11.0%	-2.0%	7.4%
Gross Margin	21.9%	19.4%	23.0%			
EBIT	117.0	85.7	132.2	13.0%	54.3%	
Net Profit	94.2	61.7	118.2	25.5%	91.7%	31.1%
EPS	1.57	0.77	1.48	25.5%	91.7%	31.1%

Source: Company's Report, Argaam, Aljazira Capital

Recommendation	Overweight
Target Price (SAR)	94.0
Upside / (Downside)*	22.1%

Source: Tadawul *prices as of 8th of October 2023

Key Financials

(in SAR mn, unless specified)	FY22	FY23E	FY24E	FY25E
Revenue	6,031	6,209	6,405	6,625
Growth %	3.4%	3.0%	3.1%	3.4%
Net Income	440.2	399.7	438.4	507.6
Growth %	10.9%	-9.2%	9.7%	15.8%
EPS	5.50	5.00	5.48	6.34

Source: Company reports, Aljazira Capital

Key Ratios

	FY22	FY23E	FY24E	FY25E
Gross Margin	21.0%	21.6%	21.8%	22.8%
Net Margin	7.3%	6.4%	6.8%	7.7%
P/E (x)	11.8	15.4	14.1	12.1
P/B (x)	4.9	4.7	4.1	3.5
EV/EBITDA (x)	11.3	13.2	12.6	11.2
Dividend Yield	5.7%	3.9%	4.5%	4.8%

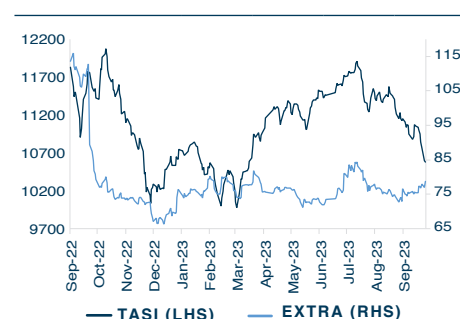
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	6.3
YTD %	13.9
52 week (High)/(Low)	88.0/65.9
Shares Outstanding (mn)	80.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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Key Financial Table

Amount in SAR mn, unless otherwise specified	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
Income statement							
Revenues	5,834	6,031	6,209	6,405	6,625	6,852	7,130
Y/Y	-2.2%	3.4%	3.0%	3.1%	3.4%	3.4%	4.1%
Cost of Sales	(4,650)	(4,766)	(4,868)	(5,006)	(5,118)	(5,230)	(5,374)
Gross profit	1,184	1,265	1,342	1,399	1,507	1,622	1,756
Selling, marketing and distribution expenses	(538)	(556)	(586)	(603)	(624)	(645)	(671)
Administrative expenses	(167)	(184)	(232)	(240)	(250)	(261)	(274)
Net impairment losses on financial expenses	(25)	(41)	(61)	(53)	(56)	(69)	(68)
Other expenses	(5)	(4)	(17)	(6)	(6)	(6)	(6)
Other income	17	42	52	32	33	34	36
Operating profit	465	522	497	529	604	674	772
Y/Y	33.9%	12.3%	-4.8%	6.3%	14.4%	11.6%	14.4%
Finance charges	(38)	(50)	(59)	(57)	(59)	(56)	(55)
Profit before zakat	427	472	438	471	546	619	716
Zakat	(31)	(32)	(38)	(33)	(38)	(43)	(50)
Net income	397	440.2	399.7	438.4	507.6	575	666
Y/Y	41.7%	10.9%	-9.2%	9.7%	15.8%	13.4%	15.8%
EPS (SAR)	4.96	5.50	5.00	5.48	6.34	7.19	8.33
Balance sheet							
Assets							
Cash & bank balance	173	147	163	222	214	218	389
Other current assets	1,784	1,875	2,084	2,260	2,609	2,922	3,141
Property & Equipment	447	495	540	566	576	579	575
ROU assets	424	451	504	560	617	675	732
Other non-current assets	820	1,002	1,212	1,384	1,379	1,378	1,516
Total Assets	3,648	3,970	4,503	4,991	5,395	5,772	6,353
Liabilities & owners' equity							
Total current liabilities	1,349	1,650	1,380	1,452	1,479	1,462	1,489
Total non-current liabilities	1,306	1,181	1,818	2,030	2,134	2,187	2,310
Paid -up capital	600	800	800	800	800	800	800
Statutory reserves	69	64	104	148	199	256	256
Other reserve	15	4	4	4	4	4	4
Retained earnings	340	327	453	613	835	1,119	1,551
Total owners' equity	993	1,139	1,305	1,509	1,782	2,123	2,555
Total equity & liabilities	3,648	3,970	4,503	4,991	5,395	5,772	6,353
Cashflow statement							
Operating activities	(17)	(68)	109	245	349	449	518
Investing activities	(48)	(104)	(210)	(206)	(207)	(215)	(223)
Financing activities	53	146	117	20	(150)	(230)	(124)
Change in cash	(12)	(26)	16	60	(8)	4	171
Ending cash balance	173	147	163	222	214	218	389
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	1.5	1.2	1.6	1.7	1.9	2.1	2.4
Quick ratio (x)	0.6	0.6	0.8	0.9	1.1	1.4	1.6
Profitability ratios							
GP Margin	20.3%	21.0%	21.6%	21.8%	22.8%	23.7%	24.6%
Operating Margins	8.0%	8.7%	8.0%	8.3%	9.1%	9.8%	10.8%
EBITDA Margin	9.7%	10.5%	9.9%	10.3%	11.4%	12.2%	13.3%
Net Margins	6.8%	7.3%	6.4%	6.8%	7.7%	8.4%	9.3%
Return on assets	12.1%	11.6%	9.4%	9.2%	9.8%	10.3%	11.0%
Return on equity	43.6%	41.3%	32.7%	31.2%	30.8%	29.5%	28.5%
Market/valuation ratios							
EV/sales (x)	1.6x	1.2	1.3	1.3	1.3	1.2	1.2
EV/EBITDA (x)	16.2x	11.3	13.2	12.6	11.2	10.1	8.8
EPS (SAR)	5.3	5.9	5.0	5.5	6.3	7.2	8.3
BVPS (SAR)	12.4	14.2	16.3	18.9	22.3	26.5	31.9
Market price (SAR)*	101.6	69.1	77.0	77.0	77.0	77.0	77.0
Market-Cap (SAR mn)	8,124	5,528	6,160	6,160	6,160	6,160	6,160
Dividend yield	3.0%	5.7%	3.9%	4.5%	4.8%	5.2%	5.2%
P/E ratio (x)	19.2	11.8	15.4	14.1	12.1	10.7	9.2
P/BV ratio (x)	8.2	4.9	4.7	4.1	3.5	2.9	2.4

Source: Company financials, AlJazira Capital research



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TERMINOLOGY

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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.
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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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