

# United Electronics Co. (Extra)

## An Exceptional Performance by Extra in A2020

14 March 2021

**United Electronics Co. (Extra) has a strong year in A2020, significantly positioning itself above its competitors. The company showed healthy margins, despite major challenges in the market on the back of the pandemic. Revenue reached a record-high in Q4 2020 due the increased contribution of "Tas'heel finance", which is expected to be sustained in the near future. However, the retail segment doesn't show a lot of promise in 2021 as the impact of VAT unfolds.**

**We update our 52 weeks target price SAR106.5/share while maintaining our **Neutral** recommendation.**

Extra reported significant recovery in revenues in Q4 2020 amounting to a total of SAR1,955mn, representing an increase of 4% Y-o-Y (+59.6% Q-o-Q). The increase in revenues is attributed to the delayed release of the iPhone in October 2020, in addition to Extra services and consumer finance services revenues that heavily contributed in the record-high revenues of Q4 2020. Despite the increase in COGS, in line the increase in sales, the company reported gross profit of SAR323mn, representing a Y-o-Y increase of 7.3% compared to SAR301mn in Q42019. Gross profit increased slightly as it stood at 16.5% in Q4 2020, compared to 16.0% in Q4 2019.

During the quarter, the company showed an impressive control of selling marketing and distribution expenses, where is dropped by 12.6% Y-o-Y, from SAR164mn in Q42019 to SAR143mn in Q4 2020. Extra reported operating profit of SAR121mn in Q4 2020 compared to SAR97mn in Q4 2019, representing an impressive increase of 24.7% Y-o-Y (+86.2% Q-o-Q). Operating profit margin stood at 6.2%, which in a significant improvement compared to 5.2% in Q4 2019.

Finally, the Extra reported an impressive net income amounting to SAR102mn in Q4 2020 compared to SAR72mn in Q4 2019, representing 41.2% increase (+90.6% Q-o-Q). It is worth noting the Extra's financial services "Tas'heel Finance" contributed to the company's net income with a total of SAR15mn in Q4 2020 compared to net losses of SAR3mn in Q4 2019. Net profit margin for the period was 5.2% compared to only 3.8% in Q4 2019. In addition to "Tas'heel Finance" growth, the net income improvement is also thanks to the significant growth in sales across all other company segments, especially during the Mega Sale Festival during Q4 2020.

It is worth noting that the company has not announced any cash dividends for H2 yet, however we expect the company to distribute cash dividends fort H2 2020 with a value of 1.23 per share.

While the company's top and bottom-line performance was impressive during the quarter, the demand on retail was relatively low following the application of the 15% VAT, in addition to the increasing rates of the expat exodus. This is evident in the fact that the main revenue growth drivers were the consumer finance sector and the mega sales, which reflect the current needs of the consumers in the current economic climate.

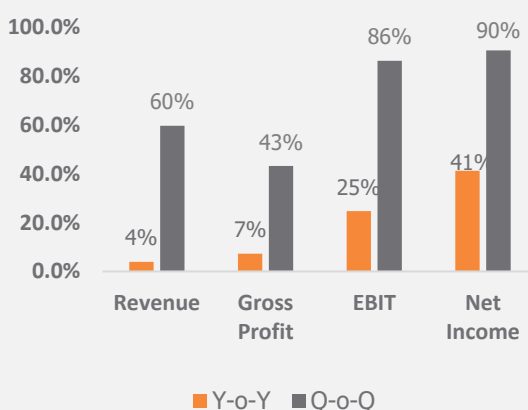
According to the General Authority for Statistics, in Saudi Arabia close to 260,000 foreign workers lost employment during the third quarter of 2020 (the statistic has not been updated yet for Q4 2020). The recession-caused expat exodus is expected to remain a threat on the company's retail segment, leading to weak demand/sales.

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (11-03-2021)	SAR97.90
Target Price (52 Weeks)	<b>SAR106.5</b>
Upside/ (Downside)	8.7%
Shariah Compliance	Pass

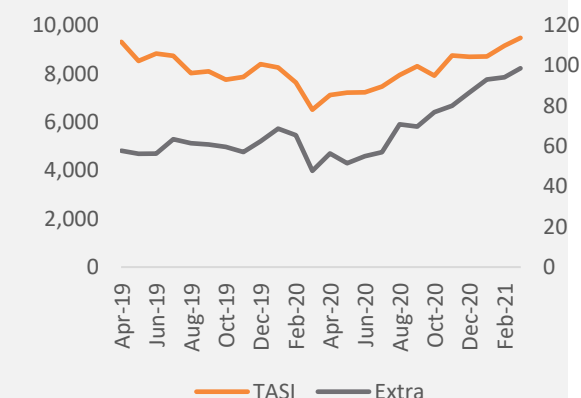
### Key Financial Ratios

Ratio	Q4 2020	Q3 2020	Q4 2019
Revenue Growth	59.6%	-21.0%	81.7%
Gross Margin	16.5%	18.4%	15.9%
EBIT Margin	6.2%	5.3%	5.2%
Net Margin	5.1%	4.4%	3.8%

### Key Financial Results (Q4 2020)



### Share Price Performance



# Financial Overview

## 2020A Overview & Outlook

**2020 was an exceptional year for Extra, ending on a positive note with a record high revenue in Q4 2020.** In H12020 the company witnessed an out-of-the-ordinary demand for its retail segment, due to the application of the VAT during the second half of the year. The demand was concentrated on laptops on the back of the e-learning measures taken by the kingdom to contain the spread of COVID-19. By Q3 2020 the company had set up their online sales platform and acquired the SAMA the final accreditation needed for its consumer financing subsidiary "Tas'heel Finance", however, the delay in the iPhone release resulted in underwhelming revenues during Q3 2020. Nevertheless, despite the challenging market conditions and limited consumer spending post the VAT, Extra was able to pull through, supported by the release of the new iPhone in October 2020. Finally, the company ended the year with an all-time high revenue level, reaching SAR1,955mn in Q4 2020. Revenue during the year reached SAR5,962mn in A2020, representing a 16.1% increase in revenue Y-o-Y compared to SAR5,135mn. While throughout the year, spikes in revenue were attributed to the aforementioned reasons, the contribution of the company's consumer financing segment was especially material in Q4 2020.

**...Few milestones were reached during A2020.** During the year, Extra reported a record-high revenue through its e-commerce as it exceeded SAR1bn, coupled with revenue contribution from "Tas'heel finance", the company's gross profit grew by 16% Y-o-Y.

During 2020, Extra was able to manage its OPEX efficiently, which was greatly supported by its e-commerce sales during the pandemic. Evidently, operating profit margin increased by 90bps from around 4.8% in A2019 to around 5.8% in A2020.

Extra also reported record-high net income of SAR280mn during A2020, which is a 36.1% Y-o-Y increase compared to SAR206mn in A2019. Net margin also increased by 70bps Y-o-Y reaching around 4.7% in A2020. It is worth noting that, during the year the company was able to achieve a net profit of SAR21.3mn "Ts'heel Finance" alone compared to a loss of SAR18.9mn in the corresponding quarter last year.

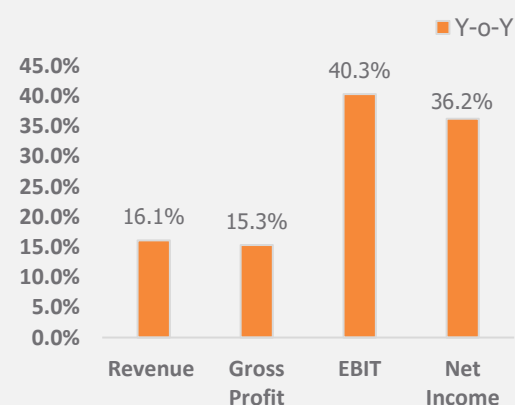
**Extra's consumer finance service "Tas'heel Finance" is a key driver for the company's future, and a huge support against market fluctuations in the retail segment.** While it is unlikely for the company to witness a drastic change in demand on its retail segment during FY2021e, we expect that the consolidation of the company's consumer financing service will be a game changer for Extra. The consumer financing sector is a highly regulated sector, which significantly reduces the risk of competition. Moreover, the segment enjoys high levels of net interest margin, resulting in high ROE. Finally, the move to financing sector during the current economic climate is especially strategic as it fills a market gap for the young demographic with housing mortgage needs, incentivized by the Ministry of Housing initiatives.

**Going forward,** we expect a flat demand on the retail segment, due to the impact of the VAT and the travel spending that will take place as soon as the global travel bans are lifted. Meanwhile, we believe that revenue from "Tas'heel Finance" will considerably off-set any expected turbulence in the company's retail segment and contribution to revenues by the segment will continue to increase dramatically until it normalizes by FY2026e.

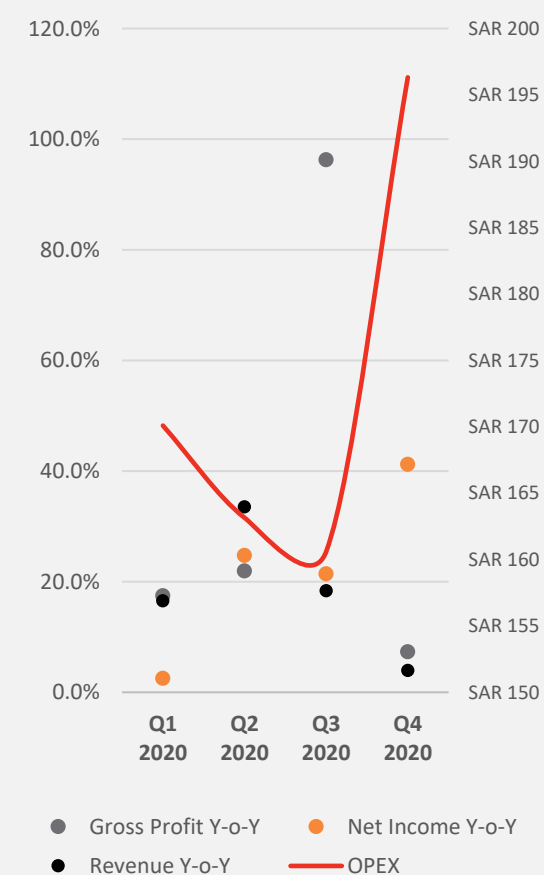
### Key Financial Ratios

Ratio	FY2020	FY2019
Revenue Growth	16.1%	16.9%
Gross Margin	17.4%	17.6%
EBIT Margin	5.9%	4.8%
Net Margin	4.7%	4.0%

### Key Financial Results (2020A)



### Quarterly Performance



# Financial Projection

## Extra's Fair Value

We have valued United Electronics Co. (Extra) using a combination of DCF approach for its retail segment, and the Residual Income approach of its consumer finance segment "Tas'heel".

Retail Segment (DCF valuation)	4,782
Consumer Finance Segment (Residual Income)	1,606
<b>Total Equity value</b>	<b>6,387</b>
Shares outstanding, mn	60
<b>SOTP value per share/ SAR</b>	<b>106.46</b>
<b>CMP (11-03-2021)</b>	<b>97.90</b>
<b>Upside potential</b>	<b>8.7%</b>

Financial Ratios	2019 A	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F	2026 F
Return on Average Assets (%)	8.9%	10.1%	10.4%	11.1%	11.6%	12.1%	12.4%	12.6%
Return on Average Equity (%)	31.5%	37.7%	35.7%	34.8%	32.6%	30.8%	28.7%	26.4%
Earnings Before Zakat Margin	4.3%	5.0%	5.6%	6.2%	6.7%	7.2%	7.6%	7.8%
Net Income Margin (%)	4.0%	4.7%	5.2%	5.8%	6.3%	6.8%	7.1%	7.3%
Revenue Growth (%)	16.9%	16.1%	2.6%	3.9%	3.7%	3.7%	3.4%	3.3%
EPS	3.4	4.7	5.3	6.1	6.9	7.7	8.3	8.9

Income Statement	2019A	2020E	2021F	2022F	2023F	2024F	2025A	2026E
Revenues	5,135	5,962	6,116	6,355	6,591	6,833	7,066	7,298
Cost of Revenues	(4,233)	(4,923)	(4,918)	(5,051)	(5,187)	(5,325)	(5,466)	(5,609)
<b>Gross Profit</b>	<b>901</b>	<b>1,039</b>	<b>1,198</b>	<b>1,304</b>	<b>1,404</b>	<b>1,507</b>	<b>1,600</b>	<b>1,689</b>
SG&A	(559)	(591)	(690)	(731)	(773)	(818)	(865)	(915)
Zakat	(12)	(18)	(22)	(27)	(30)	(34)	(36)	(38)
<b>Net Income</b>	<b>206</b>	<b>280</b>	<b>319</b>	<b>369</b>	<b>415</b>	<b>461</b>	<b>499</b>	<b>532</b>

Balance Sheet	2019 A	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F	2026 F
Current Assets	1,427	1,551	1,703	1,882	2,056	2,201	2,382	2,587
Non-Current Assets	1,208	1,379	1,516	1,568	1,656	1,719	1,740	1,764
<b>Total Assets</b>	<b>2,635</b>	<b>2,929</b>	<b>3,220</b>	<b>3,450</b>	<b>3,712</b>	<b>3,920</b>	<b>4,122</b>	<b>4,351</b>
Current Liabilities	1,325	1,286	1,327	1,353	1,371	1,371	1,349	1,332
Non-Current Liabilities	650	818	927	943	952	939	904	859
Total Equity	660	826	965	1,154	1,389	1,610	1,869	2,161
<b>Total Liabilities and Equity</b>	<b>2,635</b>	<b>2,929</b>	<b>3,220</b>	<b>3,450</b>	<b>3,712</b>	<b>3,920</b>	<b>4,122</b>	<b>4,351</b>

# Guide to Ratings and Disclaimer

## Guide to Ratings

<b>Buy</b>	An upside potential of more than 20% in 52-week period
<b>Overweight</b>	An upside Potential of more than 10% in 52-week period
<b>Neutral</b>	Will stay in the range of it value (up/down 10%) in a 52-week period
<b>Underweight</b>	A downside potential of more than 10% in 52-week period
<b>Sell</b>	A downside potential of more than 20% in 52-week period

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