United Electronics Company

Retail – Industrial
EXTRA AB: Saudi Arabia
14 April 2021

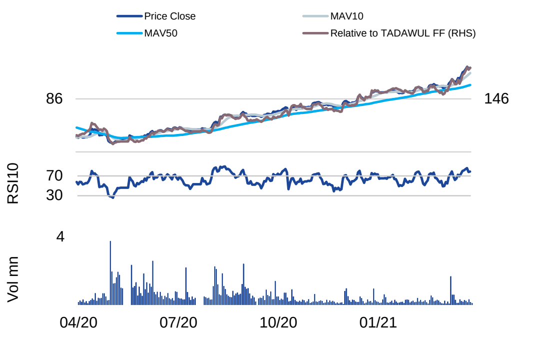
US$1.830bn	40%	US$6.22mn
Market cap	Free float	Avg. daily volume

Target price	134.00	+18% over current
Current price	114.00	as at 13/4/2021

Existing rating

Underweight | Neutral | **Overweight**

Performance



Source: Bloomberg

Earnings

Period End (SAR)	12/20A	12/21E	12/22E
Revenue (mn)	5,962	6,376	6,733
Revenue Growth	16.1%	6.9%	5.6%
EBIT (mn)	349	393	426
EBIT Growth	40.3%	12.5%	8.4%
EPS	4.67	5.43	5.91
EPS Growth	36.3%	16.2%	8.8%
DPS	3.00	3.53	3.84
Payout Ratio	64%	65%	65%
ROE	41%	39%	37%
PE Ratio	18.5x	21.9x	20.1x

Source: Company data, Al Rajhi Capital

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Extra

Q1: Strong growth in lending portfolio provides solid earnings visibility

Extra reported a robust set of numbers for Q1 2021; the company beat our estimates on all fronts driven mainly by strong contribution from consumer finance business, which improved the overall gross margins. The SG&A declined 3.17% y-o-y, which, along with higher gross margins, translated into higher operating margins during the quarter. The contribution of United Company for financial services, the consumer finance arm of Extra, in net income was SAR20mn v/s loss of SAR4mn last year. Consequently, the company reported a 134% y-o-y growth in net profit, beating our estimates of SAR48mn significantly. We remain optimistic on Extra as the consumer finance business is supporting the retail business growth and improving the margins of the consolidated business. Extra's market share increased 12.5% y-o-y to reach 18% in Jan 2021 compared to Jan 2020. We expect United Co for Finance lending portfolio to reach SAR1.6bn by 2022e from SAR863mn in Q1 FY 2021 and overall bottom-line to grow at CAGR of 10% from 2021 to 2025e. Post Q1 2021 earnings, we revise our forecast upwards and raise Extra's TP to SAR134/sh from SAR116/sh. We remain "Overweight" on Extra.

Figure 1 Summary of Q1 2021 earnings

(SAR mn)	1Q 2021	1Q 2020	Y-o-Y	4Q 2020	Q-o-Q	ARC est	vs ARC
Revenue	1,365	1,232	*11%*	1,955	*-30%*	1,343	*2%*
Gross profit	262	221	*19%*	317	*-17%*	239	*10%*
Gross margin	19%	18%		16%		18%	
Operating profit	97	51	*92%*	121	*-19%*	65	*50%*
Operating margin	7%	4%		6%		5%	
Net profit	81	35	*134%*	102	*-20%*	48	*71%*
Net margin	6%	3%		5%		4%	

Source: Company data, Al Rajhi Capital

Q1 results: Revenue increased 11% y-o-y, driven by increase in consumer finance revenue as well as overall retail business. E-commerce segment contributed 22.5% to the overall sales during the quarter. The gross profit margin improved +127bps y-o-y, likely due to higher contribution from consumer finance segment. EBIT increased 92% y-o-y, driven by higher sales and reduction in SG&A by 3.17%, which led to an increase in operating margin by +301bps y-o-y. Consequently, the net income increased 134% y-o-y driven by higher margins and operating efficiencies.

Valuation and Risks: We use sum of the parts valuation method to value Extra. The retail business is valued using DCF method. Our value for retail business is SAR91/sh (WACC 8.9% and 2% terminal growth). The consumer finance business is valued by giving 50:50 weightage to residual income (SAR42/sh) and justified PB method (SAR44/sh) which is indicating at a valuation of SAR43/sh. Accordingly the total valuation for Extra arrives at SAR134/sh (earlier SAR116/sh) which implies 18% upside. We maintain our "Overweight" rating on Extra.

Key downside risks to our valuation: Any significant slowdown in overall economy will affect the retail business and might increase the delinquency risk for the consumer finance business. This may further lead to an increase in provisions, which could pose a downside risk to our valuation.

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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