RETAILING | 08 JANUARY 2018

EXTRA

الأهلي كابيتال
NCB Capital

EVENT FLASH

In-line results supported by record high revenues

Extra reported an in-line set of 4Q17 results, with net income increasing +119.0% YoY from SR26.3mn in 4Q16 to SR57.6mn in 4Q17. Adjusting for a SR15.6mn impairment loss in 4Q16, net income increased +37.4% YoY. This compares with NCBC and consensus estimates of SR60.1mn and SR56.7mn, respectively. This is the highest quarterly net income since 4Q13 and is mainly driven by a +16.3% YoY revenue growth and expanding margins. Extra trades at a 2018E P/E of 19.2x vs the sector P/E of 14.8x.

- **NCBC view on the results:** Extra reported an in-line set of 4Q17 results, with net income increasing +119.0% YoY to SR57.6mn vs SR26.3mn in 4Q16. Adjusting for the SR15.6mn impairment losses in 4Q16, adjusted net income increased +37.4% YoY. This is the highest quarterly net income since 4Q13 and compares to the NCBC and consensus estimates of SR60.1mn and SR56.7mn, respectively. We believe the strong results are mainly driven by a +16.3% YoY revenue growth and 28-167 bps YoY expansion in margins across all profit lines supported by lower discounting and promotions.
- Sales increased +16.3% YoY to SR1,613mn, 11.1% higher than our estimates of SR1,452mn. This is the highest revenue on record, which we believe is supported by 1) the Mega Sale event, 2) increasing market share as a result of sector consolidation and 3) increased consumer spending as a result of the reinstatement of allowances in April 2017 and 4) Pre VAT buying. With only one store opening during the period, we believe the overall revenue growth was mainly supported by positive LFL growth.
- Gross margins expanded 28bps YoY to 15.7%. This is the highest 4Q gross margin since 2013, but came-in lower than our estimates of 16.1%. We believe the margin expansion is due to a change in the overall product mix towards higher margin products. Moreover, we believe Extra continued to control marketing expenses and overall Opex, which increased by only +7.9% YoY to SR183mn, coming lower than the revenue growth levels of +16.3% YoY. However, this is higher than our estimates of SR170mn.
- We are Neutral on Extra with a PT of SR32.1. We believe positive LFL and increasing market share will continue to support revenue growth. Moreover, we believe the Citizen's Account payments and inflation allowance will help maintain the discretionary spending relatively unchanged. Extra signed an agreement with the e-commerce website Noon.com in November 2017, making it the sole supplier for Noon for home appliances and electronics in Saudi. Extra trades at a 2018E P/E of 19.2x vs retail sector P/E of 14.8x.

4Q17 Results Summary

SR mn	4Q17A	4Q16A	% YoY	4Q17E	%Var^	% QoQ
Revenues	1,613	1,387**	16.3%	1,452	11.1%	107.3%
Gross income	252.7	213.4**	18.4%	234.5	7.8%	68.2%
EBIT	70.0	44.1**	58.7%	64.8	8.1%	152.7%
Net income	57.6	26.3**	119.0%	60.1	(4.2)%	120.5%
Adj. Net income	57.6	41.9**	37.4%	60.1	(4.2)%	120.5%
Reported EPS (SR)	1.37	0.63	119.0%	1.43	(4.2)%	120.5%
Adjusted EPS (SR)	1.37	1.00	37.4%	1.43	(4.2)%	120.5%

Source: Company, NCBC Research , ^ % Var indicates variance from NCBC forecasts; **Restated

NEUTRAL

Target price (SR)	**32.1**
Current price (SR)	**48.0**

STOCK DETAILS

M52-week range H/L (SR)	50/21
Market cap ($mn)	538
Shares outstanding (mn)	42
Listed on exchanges	TADAWUL

Price perform (%)	**1M**	**3M**	**12M**
Absolute	(2.2)	(0.2)	110.3
Rel. to market	(5.8)	(1.0)	108.7

Avg daily turnover (mn)	**SR**	**US$**
3M	10.9	2.9
12M	14.9	4.0

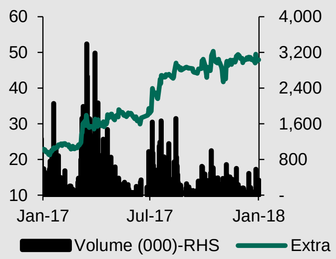
Reuters code	4003.SE
Bloomberg code	EXTRA AB
	www.extrastores.com

VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	958.2	22.6	19.2 P/
P/B (x)	3.8	3.5	3.3 P/
EV/EBITDA (x)	23.9	14.0	12.4 E\
Div Yield (%)	0.0	2.1	2.6 Di

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Mohamed Tomalieh +966 12 690 7635
m.tomalieh@ncbc.com

Kindly send all mailing list requests to research@ncbc.com

NCBC Research website	**Brokerage website**	**Corporate website**
http://research.ncbc.com	www.alahlitadawul.com www.alahlibrokerage.com	www.ncbc.com

NCBC Investment Ratings

OVERWEIGHT: Target price represents an increase in the share price in excess of 15% in the next 12 months

NEUTRAL: Target price represents a change in the share price between -10% and +15% in the next 12 months

UNDERWEIGHT: Target price represents a fall in share price exceeding 10% in the next 12 months

PRICE TARGET: Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

Important information

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware, of and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under licence number 37-06046. The registered office of which is at King Saud Road, NCB Regional Building P.O. Box 22216, 11495 Riyadh, Kingdom of Saudi Arabia.