

EXTRA

NEUTRAL

CURRENT PRICE SR59.4

UPSIDE +12.3%

TARGET PRICE SR66.7

EVENT FLASH

Margin expansion supports earnings growth

Extra reported a broadly in-line set of 2Q18 results. Net income increased +5.1% YoY to SR45.6mn. This is the highest quarterly net income since 2Q14 and compares with NCBC and consensus estimates of SR48mn. We believe the earnings growth is mainly attributed to a +119bps YoY expansion in gross margins, which offset the impact of flat sales and higher Opex.

- NCBC view on the results:** Extra reported a broadly in-line set of 2Q18 results, with net income increasing +5.1% YoY to SR45.6mn vs SR43.4mn in 2Q17. This is the highest quarterly net income since 2Q14 and compares to the NCBC and consensus estimates of SR48mn. We believe the YoY growth is mainly attributed to a gross margin expansion of +119bps YoY due to a shift in the product mix towards high margin products.
- Sales remained flat (+0.1% YoY) at SR1,015mn, indicating a negative LFL of c-2.3% YoY. This compares to our estimates of SR1,044mn. We believe the positive impact of higher market share due to market consolidation, specifically in the TV and other large home appliances segment, offset the consumer spending rationalization and departure of expats.
- Gross margins expanded 119bps YoY to 18.2% vs 17.0% in 2Q17 and our estimates of 17.9%. This is the highest 2Q gross margin since 2011. We believe the expansion in margins is primarily due to a change in the overall product mix towards higher margin electronic and home appliances products, in addition to the growing consumer financing portfolio.
- Overall Opex increased from SR128mn to SR135mn (+5.2% YoY), mainly due to higher Saudisation requirements and the opening of one new store during the year. Opex-to-sales increased to 13.3% in 2Q18 vs 12.7% in 2Q17.
- The Saudi Ministry of Labour (MoL) issued a draft proposal yesterday to ease the Saudization requirements on retail stores from 100% by year-end to 70%. We believe this will support Extra in terms of controlling its Opex levels. According to management, Extra increased its Saudization levels at stores from 41% in February 2018 to 47% in April 2018.
- We recently upgraded Extra to Neutral in our June company update, while maintaining our target price at SR66.7. We believe increasing market share due to consolidation and increasing consumer financing activity will offset the impact of economic reforms (VAT, increased utility tariffs, etc).

2Q18 Results Summary

| SRmn | 2Q18A | 2Q17A | % YoY | 2Q18E | %Var^ | % QoQ |
|------------------|-------|--------|--------|-------|---------|--------|
| Revenues | 1,015 | 1,014 | 0.1% | 1,044 | (2.8)% | 17.4% |
| Gross income | 185.1 | 172.8 | 7.1% | 186.9 | (1.0)% | 21.0% |
| Gross margin (%) | 18.2% | 17.0% | 119bps | 17.9% | 34bps | 55bps |
| EBIT | 50.1 | 44.5** | 12.6% | 53.0 | (5.4)% | 94.2% |
| EBIT Margin (%) | 4.9% | 4.4% | 55bps | 5.1% | (13)bps | 195bps |
| Net income | 45.6 | 43.4 | 5.1% | 48.3 | (5.6)% | 111.4% |
| Net margin (%) | 4.5% | 4.3% | 22bps | 4.6% | (13)bps | 200bps |
| EPS (SR) | 1.09 | 1.03 | 5.1% | 1.15 | (5.6)% | 111.4% |

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

Please refer to the last page for important disclaimer

الأهلي كابيتال
NCB Capital

STOCK DETAILS

| | |
|-------------------------|---------|
| M52-week range H/L (SR) | 83/34 |
| Market cap (\$mn) | 666 |
| Shares outstanding (mn) | 42 |
| Listed on exchanges | TADAWUL |

| Price perform (%) | 1M | 3M | 12M |
|-------------------|--------|--------|------|
| Absolute | (13.2) | (15.5) | 80.7 |
| Rel. to market | (11.7) | (18.7) | 66.5 |

| Avg daily turnover (mn) | SR | US\$ |
|-------------------------|------|------|
| 3M | 14.2 | 3.8 |
| 12M | 16.2 | 4.3 |

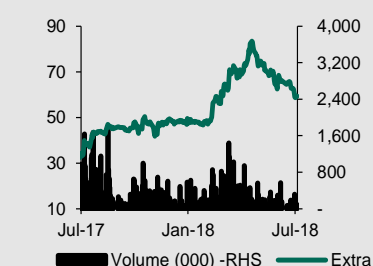
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|----------------|---------------------|
| Reuters code | 4003.SE |
| Bloomberg code | EXTRA AB |
| | www.extrastores.com |

VALUATION MULTIPLES

| | 17A | 18E | 19E |
|---------------|------|------|------|
| P/E (x) | 17.8 | 16.3 | 14.0 |
| P/B (x) | 4.4 | 4.0 | 3.6 |
| EV/EBITDA (x) | 13.6 | 12.5 | 11.0 |
| Div Yield (%) | 3.4 | 3.8 | 4.2 |

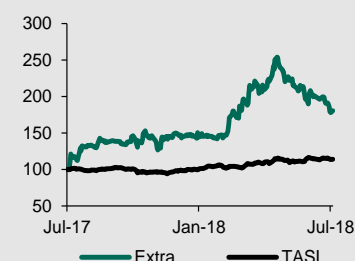
Source: NCBC Research estimates;

SHARE PRICE PERFORMANCE



Source: Tadawul

RELATIVE PERFORMANCE



Source: Tadawul

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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

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