

EXTRA

NEUTRAL

CURRENT PRICE SAR63.1

DOWNSIDE -5.4%

TARGET PRICE SAR59.7

EVENT FLASH

Record high earnings led by margin expansion

Extra reported a Q4 18 net income of SAR62.9mn, increasing +9.1% yoy. This is broadly in-line with the NCBC and consensus estimates of SAR66.7mn and SAR66.0mn. With sales being flat yoy, we believe the earnings growth is mainly due to a +83bps yoy expansion in gross margins, due to consolidation trends and a change in the product mix towards large appliances.

- **NCBC View on Results:** Extra reported a Q4 18 earnings of SAR62.9mn, increasing 9.1% yoy. This is broadly in-line with the NCBC and consensus estimates of SAR66.7mn and SAR66.0mn, respectively. We believe the yoy growth is driven mainly by 1) gross margin expansion given higher contribution of higher margin home appliances in the product mix and 2) lower financing expenses and 3) lower Zakat provision.
- Sales were broadly flat, increasing 0.4% yoy to SAR1,619mn. This is the highest top-line on record, supported by the mega-sale (1-7 November 2018). Extra has not opened stores between Q4 17 and Q4 18, however its store in Jeddah was reopened. LFL growth stood at 2.7% yoy in Q4 18, supported by consolidation trends in large home appliances. We believe the limited top-line growth came as a result of 1) pre-VAT buying in Q4 17 and 2) early launch of the iPhone in Q3 18, which added c+4% to the Q3 18 LFL growth levels.
- Gross margins expanded by +83bps yoy to 16.5% vs 15.7% in Q4 17 and were slightly higher than our estimates of 16.0%. This is the highest Q4 gross margin since 2014. We believe the expansion in margins is primarily due to a change in the overall product mix towards higher margin home appliances, as a result of the consolidation in the sector upon the implementation of the 70% Saudisation of 12 retail subsectors including electronic stores.
- Opex increased +9.4% yoy to SAR200mn in Q4 18 vs SAR183mn in Q4 17, coming broadly in-line with our estimates of SAR194mn. We believe the yoy increase in opex is due to higher Saudisation requirements and increase marketing expenses due to the Mega Sale. Opex-to-sales increased to 12.4% in Q4 18 vs 11.3% in Q4 17 and our estimates of 11.6%.
- We are Neutral on Extra with a PT of SAR59.7. We believe the market share gains as a result of the consolidation in the industry is a positive. Moreover, we believe Extra's plan to return to store expansion will further support top-line growth in 2019f. Extra trades at a 2019E PE of 17.7x, higher than the average PE of covered stocks at 16.4x.

Q4 18 Results Summary

SARmn	Q4 18a	Q4 17a	%, yoy	Q4 18f	%, var^	%, qoq
Revenues	1,619	1,613	0.4%	1,671	(3.1)%	81.0%
Gross income	267.4	253.1**	5.7%	266.5	0.3%	55.3%
Gross margin (%)	16.5%	15.7%	83bps	16.0%	56bps	(273)bps
EBIT	67.2	70.1**	(4.1)%	72.4	(7.1)%	94.1%
Net income	62.9	57.7	9.1%	66.7	(5.8)%	103.1%
Net margin (%)	3.9%	3.6%	31bps	4.0%	(11)bps	42bps
EPS (SAR)	1.26	1.15	9.1%	1.33	(5.8)%	103.1%

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

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الأهلي كابيتال
NCB Capital



STOCK DETAILS

52-week range H/L (SAR)	73/42
Market cap (\$mn)	842
Shares outstanding (mn)	50
Listed on exchanges	TADAWUL

Price perform (%)	1m	3m	12m
Absolute	5.9	11.1	31.9
Rel. to market	0.9	7.2	19.4

Avg daily turnover (mn)	SAR	US\$
3m	13.8	3.7
12m	17.3	4.6

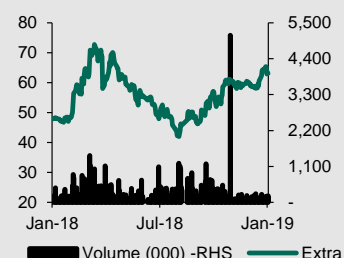
Reuters code	4003.SE
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VALUATION MULTIPLES

	17a	18f	19f
PE (x)	22.5	19.1	17.7
PB (x)	5.6	5.0	4.5
EV/EBITDA (x)	14.4	14.5	13.6
Div Yield (%)	3.2	3.2	3.6

Source: NCBC Research forecasts

SHARE PRICE PERFORMANCE



Source: Tadawul

RELATIVE PERFORMANCE



Source: Tadawul

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

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

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<http://research.alahlicapital.com>

Brokerage website

www.alahlitadawul.com

Corporate website

www.alahlicapital.com

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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
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