United Electronics Company

Retail – Industrial
EXTRA AB: Saudi Arabia
15 January 2019

الراجحي المالية
Al Rajhi Capital

US$0.828bn	40%	US$2.453mn
Market cap	Free float	Avg. daily volume

Target price	60.0	-3.5% over current
Current price	62.1	as at 14/01/2019

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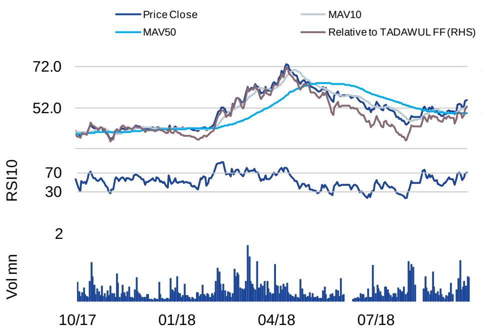
Existing rating

Underweight | **Neutral** | Overweight

Performance



Earnings

Period End (SAR)	12/18A	12/19E	12/20E	12/21E
Revenue (mn)	4,394	4,670	5,152	5,646
Revenue Growth	4.4%	6.3%	10.3%	9.6%
EBITDA (mn)	220	240	278	307
EBITDA Growth	14.6%	8.8%	15.9%	10.6%
EPS	3.22	3.45	4.11	4.69
EPS Growth	14.9%	7.2%	19.2%	14.2%

Source: Company data, Al Rajhi Capital

Extra

In-line performance, positive outlook

Extra recorded a net profit of SAR63mn in Q4 (9% y-o-y), broadly in line with our estimate of SAR65mn (consensus: SAR66mn). As per our calculations, overall market demand remained largely flat, thereby restricting top-line growth to 0.4% y-o-y. The company has gained notable market share from shift of the market towards organised players, as the market share increased by 21% to stand at 16.5% (13.6% in 2017). We believe that the company is well positioned to continue gaining market share on the back of Saudization and higher penetration into e-commerce sales channel. Post robust Q4 results, we raise our forward-looking estimates, resulting into the upward revision of our target price to SAR60 per share (earlier: SAR57 per share). The stock price has gained ~11% over the past three months and is trading near our target price. Consequently, we remain Neutral on the stock.

Q4 Results: Q4 revenue remained flat on yearly basis at SAR1,619mn (our estimate: SAR1,702mn) amid gains in market share and year-end mega sale event. Although revenue came in less than our estimate, gross profit moved up ~6 % y-o-y to SAR267mn. Accordingly, gross profit margin has increased to 16.5% (+83 bps y-o-y). We believe that the company's focus on the year-end sales festival and launching their discounts festival on noon.com for the first time may have led to higher SG&A expenses (12.3% of revenue in Q4 2018 vs. 11.8% in Q4 2017). However, the rise in operating expenses was marginally slower than top-line growth, implying a 38bps expansion in the EBIT margin to 4.2%. Consequently, net profit came in at SAR62.9mn (+9.1% y-o-y).

Catalysts: We expect the company to continue to gain market share on the back of faster store roll-outs and more focus on online sales through Extra website and Noon.com, which we believe to be a key catalyst for further upside in the stock price. For now, we build for 2/3 stores in FY19.

Outlook: For 2019, we remain cautious due to shrinkage in the overall market amid economic uncertainty. However, starting from 2020 we expect Extra's growth to recover underpinned by expansion in the instalment program "Tasheel" (expected to reach SAR500mn book value) and elevated digital sales (Extrastores.com, Noon.com) which will drive higher LFL sales.

Valuation: We continue to value Extra on equal weights for DCF (3% terminal growth, 5% debt in capital structure and 8.9% WACC) and P/E based relative valuation (17.5x FY19 EPS), yielding the target price of SAR60 per share. The stock is currently trading at a P/E of 19.4x, based on 2018 EPS, higher than its 3-year average P/E of 19.4x. We maintain our "Neutral" rating for the stock.

Figure 1 Extra: Summary of Q4 2018 results

(SAR mn)	Q4 2017	Q3 2018	Q4 2018	%chg y-o-y	%chg q-o-q	ARC Estimate
Revenue	1,613	895	1,619	0.4%	81%	1,702
Gross Profit	253	172	267	5.6%	55%	277
Gross Margin	15.7%	19.2%	16.5%	NA	NA	16.2%
Operating profit	62	34	68	10.4%	101%	71
Net Profit	58	31	63	9.1%	103%	65

Source: Company data, Al Rajhi Capital

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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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