



US\$1.925bn Market cap
40% Free float
US\$8.14mn Avg. daily volume

Target price **145.00** +20% over current
Current price **121.00** as at 4/8/2022

Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

SARmn	FY21A	FY22E	FY23E
Revenue	5,834	6,097	6,173
Revenue Growth	-2.2%	4.5%	1.2%
Gross profit	1,184	1,280	1,327
Gross margin	20.3%	21.0%	21.5%
EBIT	478	568	606
EBIT Margin	8.2%	9.3%	9.8%
EPS	6.61	8.08	8.88
EPS Growth	41.7%	22.2%	9.9%
DPS	4.50	5.00	5.25
Payout Ratio	68%	62%	59%
ROE	44%	45%	41%

Source: Company data, Al Rajhi Capital

Extra
Continue with overweight rating but reduce TP to SAR145/sh

Extra reported a robust growth in revenue owing to shift in the Sale season timing and reported a revenue of SAR1,700mn, ahead of our estimate of SAR1,369mn. We believe shifting the Sale season to 2Q from 4Q was a prudent strategy as the company was able to generate revenues similar to what it generated during last Sale season. The consumer finance division which is highly correlated to the retail business also saw a commensurate growth which further aided the top-line growth.

Gross margin on a y-o-y basis saw the obvious compression (c.300bps) due to higher discounts offered during sale season however compared to previous sale periods the compression was fairly moderate (18.8% vs. 20.0% in 4Q'21 and 16.5% in 4Q'20) while it was broadly in-line with our estimate. As such the gross profit was reported at SAR320mn (vs. SAR260mn our estimate, +23% beat) and the beat was mostly attributable to the higher revenues the company could generate. At the operating level as well, the margin was in-line with our estimate and the higher operating profit of SAR124mn against our estimate of SAR103mn was mostly a result of the higher top-line.

We have factored a lower than usual revenue for the 4Q as the sale period was shifted to 2Q this year. We see the momentum of increasing contribution from the consumer finance arm to continue and consider it a vital part of the business as it facilitates credit purchase thereby increasing demand. Also, in the near to medium term we have factored in lower discounts as the purchasing power of consumers in KSA is likely to increase. We lower our TP to SAR145/sh from SAR150/sh earlier, however we continue to be overweight on the stock.

Figure 1 Summary of Q2 2022 earnings

(SAR mn)	2Q 2022	2Q 2021	Y-o-Y	1Q 2022	Q-o-Q	ARC est	vs ARC
Revenue	1,700	1,329	27.9%	1,412	20%	1,369	24%
Gross profit	320	290	10.5%	290	10%	260	23%
Gross margin	19%	22%		21%		19%	
Operating profit	124	108	15%	114	9%	103	21%
Operating margin	7%	8%		8%		8%	
Net profit	127	101	26%	98	30%	108	18%
Net margin	7%	8%		7%		8%	

Source: Company data, Al Rajhi Capital

Valuation and Risks: We value Extra using an equal weight to DCF and PE based valuation. Our DCF based target price based on 1% terminal growth and 12% WACC is SAR145/sh while the relative valuation based on 17x 12-month forward EPS is SAR144. Thus, the weighted tp stands at SAR145/sh which implies +20% upside from the CMP of SAR121/sh.

Key upside risks to our valuation: Supply side constraints easing and significant increase in household income due to increasing female employment will have a positive impact on the demand/supply dynamics and thus pose an upside risk to our valuation.

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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