

US\$2.2bn Market Cap. 82.2% Free Float US\$7.6mn Avg. Daily Value traded

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United Electronics Co.

Upgrading to Overweight

Overweight

Price Target (SAR): 117.0

Current (2 December 2024): 102.6
Upside/Downside: 14.0% above current

Valuation Multiples	23A	24E	25E
P/E (x)	21.0	16.1	17.4
EV/EBITDA (x)	15.1	12.8	11.8

Major Shareholders	% Ownership
Al Fozan Holding Co.	15.01

Price Performance	1M	3M	YTD
Absolute	1.6%	10.8%	14.4%
Relative to TASI	3.9%	14.3%	16.0%

Earnings

(SARmn)	2023	2024E	2025E
Revenue	6,201	6,892	7,537
Revenue growth	2.8%	11.1%	9.4%
Gross profit	1,362	1,568	1,748
Gross margin	22.0%	22.7%	23.2%
EBITDA	665	808	901
EBITDA margin	10.7%	11.7%	11.9%
Net profit	390	511	472
Net margin	6.3%	7.4%	6.3%
EPS	4.9	6.4	5.9
DPS	3.5	4.5	4.0
Payout ratio	71.7%	70.5%	67.8%
P/E	21.0x	16.1x	17.4x
ROE	32.2%	39.2%	32.8%

Source: Company data, Al Rajhi Capital.

We upgrade our stance on eXtra from Neutral to Overweight and revise our Fair Value to SAR 117.0/sh (from SAR 93.0/sh previously), offering an upside of 14.0% to the last close. Our Overweight rating on the stock is the result of 1) expectation of double-digit growth in Tas'heel's loan book, and 2) continued stellar performance of eXtra's electronic business. Going forward, we expect Tas'heel's loan book to grow at a 5-year CAGR (2023-28) of 18.3% resulting in an earnings CAGR of 13.6% during the same period as the company capitalizes on 1) favorable demographics within the Kingdom, 2) monetary easing, 3) its robust & scalable infrastructure, and 4) continuous improvement/changes in its product offerings. Furthermore, we opine the company's electronic business is poised to benefit from 1) user-friendly e-commerce platform, and 2) company's partnership with Panda.

Tas'heel to benefit from favorable demographics, scalable infrastructure, and strong relationship with its strategic partners: Since 2021, United International Holding Co's (UIHC) earnings have grown at a CAGR of 27.9% led by 25.8% growth in Tas'heel's loan book as the company benefitted from 1) overall growth in the NBF1 consumer finance, and 2) relaxation of its internal lending policies. Going forwards, we expect the company to benefit from favorable demographics within the Kingdom (growing, young and tech-savvy population) and monetary easing; both of which can play an important role in increasing credit penetration in the country. Furthermore, we believe company's robust & scalable infrastructure and continuous improvement/changes in its product offerings should allow the company in maintaining its market share within NBF1 consumer finance. Hence, we expect the company's loan book to grow at a 5-year CAGR (2023-28) of 18.3% resulting in an earnings CAGR of 13.6% during the same period. (For details about Tas'heel, please refer to our [initiation report](#)).

Electronic segment poised to benefit from e-commerce revolution: On the back of eXtra revamping its online platform, company's e-commerce sales have grown by 38.5% y-o-y during 9M24 (resulting in a 9.4% y-o-y growth in overall electronic segment topline). Going forward, we believe company's user-friendly e-commerce platform is poised to benefit from 1) high internet/smartphone penetration within the kingdom, and 2) a young population with increasing acceptance for online shopping. Furthermore, we opine company's partnership with Panda can be expected to positively contribute towards topline growth as the company would be able to further expand its customer reach without incurring any capex or rent expenses. As a result, we expect e-commerce sales of the company's electronic business to grow at a 5-year CAGR of 13.7% and overall revenue to grow by 6.6% during the same period.

Valuation & Recommendation: We upgrade our stance on eXtra from Neutral to Overweight and revise our fair value to SAR 117.0/sh (from SAR 93.0/sh previously), offering an upside of 14.0% to the last close. Our fair value for the company is the sum of 1) fair value of eXtra's electronic retail business, 2) fair value of eXtra's 70% stake in Tas'heel (United International Holding Co), and 3) Cash from sale of 30% stake of Tas'heel.

We value eXtra's electronic business at SAR 70/sh, using discounted cashflow-based valuation and target P/E multiple; assigning equal weight to both. For discounted cashflow, we use a terminal WACC of 8.5% and a terminal growth rate of 3.0%. Additionally, we assign a target P/E multiple of 20x taking into consideration the 5-year revenue CAGR of 6.6% for the company's electronic business. Furthermore, we value eXtra's 70% stake in Tas'heel at SAR35/sh using residual income model.

Figure 1 **Valuation table**

Company	Valuation Method		Fair Value per share
eXtra Retail	DCF Valuation	SAR/sh	68.7
	P/E	"	70.8
	Fair Value	"	69.7
UIHC	70% of stake in UIHC	"	35.1
	Cash from sale of UIHC	"	12.4
eXtra Target price		"	117.0
CMP		"	102.6
Upside/(Downside)		%	14.0%
Dividend yield		%	4.4%
Total returns		%	18.4%

Source: Al Rajhi Capital estimates

Financials

Figure 2 **Income Statement**

SAR mn	2023	2024E	2025E
Revenue	6,201	6,892	7,537
<i>y-o-y growth</i>	2.8%	11.1%	9.4%
Cost of Sales	4,839	5,324	5,788
Gross Profit	1,362	1,568	1,748
<i>y-o-y growth</i>	7.7%	15.1%	11.5%
<i>margins</i>	22.0%	22.7%	23.2%
Operating Profit	551	688	778
<i>y-o-y growth</i>	4.9%	24.9%	13.1%
<i>margins</i>	8.9%	10.0%	10.3%
Net Income	390	511	472
<i>y-o-y growth</i>	-11.3%	30.8%	-7.6%
<i>margins</i>	6.3%	7.4%	6.3%
EPS	4.9	6.4	5.9

Source: Al Rajhi Capital estimates.

Figure 4 **Ratios and Multiples**

	2023	2024E	2025E
ROE	32.2%	39.2%	32.8%
Debt/EBITDA (x)	2.0	2.0	2.2
P/E (x)	21.0	16.1	17.4
D/Y	3.4%	4.4%	3.9%
EV/EBITDA (x)	15.1	12.8	11.8

Source: Al Rajhi Capital estimates.

Figure 3 **Balance Sheet**

SAR mn	2023	2024E	2025E
Cash	151	129	205
Trade and other receivables	174	175	184
Investments	839	1,184	1,418
Inventories	1,187	1,222	1,327
Others	3	4	4
Current Assets	2,355	2,713	3,137
Fixed assets & intangibles	547	546	540
Right to use of assets	451	478	486
Investments	1,028	1,241	1,486
Others	60	60	62
Total Assets	4,442	5,039	5,712
Accounts Payable	777	1,062	1,148
Borrowings	689	695	776
Lease Liabilities	30	34	36
Others	179	175	175
Current Liabilities	1,674	1,966	2,134
Borrowings	665	921	1,168
Lease liabilities	589	607	632
Others	229	225	225
Total Liabilities	3,157	3,718	4,159
Paid-up Capital	800	800	800
Retained Earnings	515	566	799
Others	(31)	(45)	(45)
Total Equity	1,284	1,321	1,554
Total Liabilities & Equity	4,442	5,039	5,712

Source: Al Rajhi Capital estimates

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