الراجحي المالية
alrajhi capital

US$2.0bn	76.6%	US$10.4mn
Market Cap.	Free Float	Avg. Daily Value traded

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United Electronics Co.

Maintain a Neutral rating with a fair value of SAR93/sh

Neutral

Price Target (SAR): 93.0

Current: 94
Upside/Downside: 1.1% below current

Valuation Multiples	23E*	24E	25E
P/E (x)	18.4	16.9	15.3
EV/EBITDA (x)	14.7	12.9	12.1

Major Shareholders	% Ownership
Al Fawzan Holding Company	20.00

Price Performance	1M	3M	YTD
Absolute	0.1%	15.8%	4.8%
Relative to TASI	0.7%	5.5%	3.9%

Earnings

(SARmn)	2023E*	2024E	2025E
Revenue	6,197	6,591	6,999
Revenue growth	2.8%	6.4%	6.2%
Gross profit	1,358	1,478	1,618
Gross margin	21.9%	22.4%	23.1%
EBITDA	604	737	801
EBITDA margin	9.7%	11.2%	11.4%
Net profit	391	445	492
Net margin	6.3%	6.7%	7.0%
EPS	4.9	5.6	6.2
DPS	3.5	4.0	4.5
Payout ratio	71.7%	72.0%	73.1%
P/E	18.4x	16.9x	15.3x
RoE	34.8%	38.1%	38.0%

Source: Company data, Al Rajhi Capital. *2023 numbers are as per Company's estimated results

We maintain our neutral rating on eXtra with a fair value of SAR93.0/sh, having a slight downside of 1.1% from the last close. We believe that the current market price balances the risks of near-term stagnation in the consumer electronic market and the possibility of higher competition among the consumer finance companies with the benefits of the company's alliance with Panda (to have a higher customer reach) and the launch of new financing products. We value the company using the sum of parts, where our fair value for the company's electronic business is SAR53/sh and that for Tasheel is SAR40/sh.

Electronic business to remain resilient: Due to the combined impact of 1) shifting consumer preference (resulting in a higher percentage of the disposable income being spent on entertainment and the HORECA segment), and 2) the absence of any new revolutionary electronic product offering, PoS Sales for Electronic & Electric Devices saw a second consecutive annual decline of ~8% in 2023. While in the long-term, growing population and increasing house ownership would be positive catalysts for the industry (which eXtra is ideally positioned to take advantage of with its wide network of stores through which it can reach ~90% of the population), the near-term would be a play on market share in our opinion.

Amidst the above, we opine that the company's partnership with Panda can be expected to provide some support towards topline growth as the company would be able to further expand its customer reach without incurring any capex or rent expenses. As per our understanding, the ten-year commercial alliance with Panda, whereby eXtra will manage the Electronics and Home Appliances Sector in Panda stores, under the brand name "Clix" is on a 50:50 profit-sharing basis. Furthermore, as per the guidance provided by the management in its recent earnings call the positive benefits of this alliance can be expected to be post 2Q2024.

As against the relatively flattish topline growth witnessed by the company's electronic segment in the recent past, we assume a modest mid-single-digit growth in topline in our forecast taking into consideration the positive impact of the company's alliance with Panda. Under this set of assumptions, our fair value for the company's electronic business is SAR53/sh.

Tasheel's IPO can potentially lead to a Special Dividend: While we do not expect the personal and credit card finance industry to replicate the growth that was witnessed in 2021 and 2022; we believe the overall industry's growth would remain in double digits in the near term. Hence, as against the historical 3-year CAGR of ~40% in the company's gross Islamic financing book, we expect the company's financing book to grow at a 3-year CAGR of ~17% between 2023-2026. In our opinion, higher population growth, higher labor force participation, and overall growth of the economy would be the key factors that drive the above-mentioned growth in the financing book.

However, based on our discussion with industry players we believe that the average realized return on Islamic financing can be expected to come under pressure on account of the numerous new players trying to expand their market share. Furthermore, the company's new financing product baseeta (which would function like a "buy now pay later" product for the first 5 months of the loan, beyond which it would function similarly to a product loan) would allow it to provide its customers with another financing option. Based on our discussion with industry players we understand that "buy now pay later" products are relatively riskier. As per our understanding, the source of this elevated risk is the absence of the requirement for "buy now pay later" companies to conduct enhanced due diligence in case the ticket size is less than SAR 2,000.

Recommendation and Valuation:

We maintain our neutral rating on eXtra with a fair value of SAR93.0/sh, having a slight downside of 1.1% from the last close. We believe that the current market price balances the risks and returns faced by the company

We value eXtra's electronic business at SAR53/sh, assigning equal weight to Discounted cashflow-based valuation and P/E. For discounted cashflow, we use a cost of equity of 9.9% and a terminal growth rate of 2.5%. Additionally, our target P/E multiple of 25x takes into consideration the risk and return trade-off of the company.

Furthermore, we arrive at Tasheel value of SAR40/sh, giving equal weight to residual income and justified P/B methods. We use a cost of equity of 11.1% and a terminal growth rate of 4% within these valuation methods.

Figure 1 **Valuation table**

Company	Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)
eXtra electronics	DCF Valuation	52	50.0%	26
	P/E	55	50.0%	27
	Target price			**53**
Tasheel	Residual Income	42	50.0%	21
	Justified P/B	39	50.0%	19
	Target price			**40**
eXtra Target price				**93**
CMP				94
Upside/(Downside)				**-1.1%**
Dividend yield				4.3%
Total returns				**3.2%**

Source: Company data, Al Rajhi Capital

Financials

Figure 2 **Income Statement**

SAR mn	2023E*	2024E	2025E
Revenue	**6,197**	**6,591**	**6,999**
y-o-y growth	*2.8%*	*6.4%*	*6.2%*
Cost of Sales	4,839	5,114	5,381
Gross Profit	**1,358**	**1,478**	**1,618**
y-o-y growth	*7.4%*	*8.8%*	*9.5%*
margins	*21.9%*	*22.4%*	*23.1%*
Operating Profit	**489**	**620**	**684**
y-o-y growth	*-6.9%*	*26.9%*	*10.4%*
margins	*7.9%*	*9.4%*	*9.8%*
Net Income	**391**	**445**	**492**
y-o-y growth	*-11.3%*	*13.9%*	*10.7%*
margins	*6.3%*	*6.7%*	*7.0%*
EPS	4.9	5.6	6.2

Source: Al Rajhi Capital estimates. *2023 numbers are as per Company's estimated results

Figure 4 **Ratios and Multiples**

	2023E*	2024E	2025E
RoE	34.8%	38.1%	38.0%
Debt/EBITDA (x)	3.2	3.1	3.3
P/E (x)	18.4	16.9	15.3
D/Y	3.9%	4.3%	4.8%
EV/EBITDA (x)	14.7	12.9	12.1

Source: Al Rajhi Capital estimates. *2023 numbers are as per Company's estimated results

Figure 3 **Balance sheet**

SAR mn	2023E	2024E	2025E
Cash	239	325	464
Trade and other receivables	152	164	165
Investments	812	971	1,110
Inventories	1,110	1,206	1,236
Others	4	4	4
Current Assets	**2,317**	**2,670**	**2,979**
Fixed assets & intangibles	537	526	518
RoU of assets	464	468	474
Investments	1,058	1,265	1,446
Others	60	60	60
Total Assets	**4,436**	**4,989**	**5,478**
Accounts Payable	989	1,068	1,093
Borrowings	640	848	1,050
Lease Liabilities	25	25	26
Others	175	175	175
Current Liabilities	**1,829**	**2,117**	**2,343**
Borrowings	677	812	934
Lease liabilities	602	607	615
Others	225	225	225
Total Liabilities	**3,332**	**3,760**	**4,117**
Paid-up Capital	800	800	800
Retained Earnings	265	389	522
Others	40	40	40
Total Shareholders Equity	**1,104**	**1,229**	**1,361**

Source: Al Rajhi Capital estimates

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"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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