United Electronics Company

Retail: Consumer Discretionary
EXTRA AB: Saudi Arabia
13 April 2023

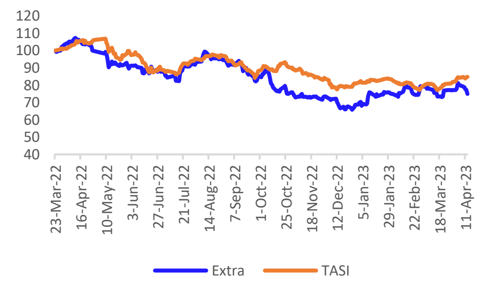
US$1.612bn	67.47%	US$5.95mn
Market Cap	Free Float	Avg. Daily Volume

Target price	82.00	8.5% above current
Current price	75.60	as at 13/04/2023

Existing rating

Underweight	Neutral	Overweight

Performance (Rebased to 100)



Earnings

SARmn	FY22	FY23E	FY24E
Revenue	6,031	6,176	6,373
Revenue Growth	3.4%	2.4%	3.2%
Gross profit	1,265	1,297	1,385
Gross margin	21.0%	21.0%	21.7%
Operating profit	525	531	595
Operating margin	8.7%	8.6%	9.3%
EPS	5.50	5.03	5.56
EPS Growth	10.9%	-8.6%	10.6%
DPS	4.00	2.51	2.78
Payout Ratio	73%	50%	50%
ROA	11%	9%	9%
ROE	39%	32%	31%

Source: Company data, Al Rajhi Capital.

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Extra

Weak retail performance likely to remain. Lower our TP to SAR82/sh and change rating to neutral.

In the first quarter of 2023, eXtra reported flattish revenue growth of around 2% y-o-y while the retail sector witnessed a decline in sales in 1Q. Gross margin during the quarter were healthy as they came in around 21.8% vs 20.6% last year. Also, the retail margins improved by 50bps y-o-y, providing more support to the bottom-line during a high interest rate scenario. However, operating cost offset the improvement in margins and resulting in a lower EBIT (7.5% vs 8% in 1Q22). Some of the increase in operating expenses is attributed to the expansion in Egypt where the operations are yet to kick off. Moreover, the increase of financing costs further pressured the bottom-line. Net income declined by 13% in the first quarter driven by the lower income from retail segment. The consumer financing business delivered similar earnings seen in 1Q22 of around SAR54mn despite the rise in both ECL and financing cost. Thus, we revise our target price for eXtra from SAR91/sh to SAR82/sh on weaker performance from the retail segment, while the current market price is SAR75.6/sh.

Figure 1: Summary of 1Q23 results

(SAR mn)	1Q 2023	1Q 2022	Y-o-Y	4Q 2022	Q-o-Q	ARC est	vs ARC
Revenue	1,438	1,412	1.8%	1,547	-7%	1,447	-1%
Gross profit	314	290	8%	354	-11%	307	2%
Gross margin	22%	21%		23%		21%	
Operating profit	108	114	-5%	143	-25%	119	-9%
Operating margin	8%	8%		9%		8%	
Net profit	84	98	-13%	121	-30%	97	-13%
Net margin	6%	7%		8%		7%	

Source: Company data, Al Rajhi Capital

Dividend:

We note that eXtra is unlikely to sustain the SAR4/sh dividend, which was paid out at a rate of approximately 130% in 2022, once we exclude the earnings generated from the consumer financing segment. In 2021, the pay-out was 100%. We expect the company's dividend to fall in the range of SAR2.5/sh to SAR3/sh in 2023 which translates in a dividend yield range of 3.3% to 4.0%

Valuations:

For our valuation of Extra we have used SOTP method. We value the retail segment using DCF approach. Our DCF based target price based on 2.5% terminal growth and 9.1% WACC is SAR42/sh. For the financing segment we have used the justified price to book method. Our justified P/B multiple is 2.8x, assuming a 24% sustainable ROE, 3% terminal growth rate, and 11% cost of equity. We have assumed that the company will start paying dividends after 2026 and will have an average of 40% pay-out. Given these, our total equity reaches SAR2.6bn in 2030. Thus, we arrive at a target price of SAR40/sh for the financing business. Our combined valuation of Extra is SAR82/sh (an upside of 8.5% from the CMP of SAR75.6/sh).

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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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