United Electronics Company

Retail – Industrial

EXTRA AB: Saudi Arabia

18 April 2022

الراجحي المالية
Al Rajhi Capital

US$2.154bn	40%	US$7.88mn
Market cap	Free float	Avg. daily volume

Target price	150.00	+11.6% over current
Current price	134.00	as at 17/04/2022

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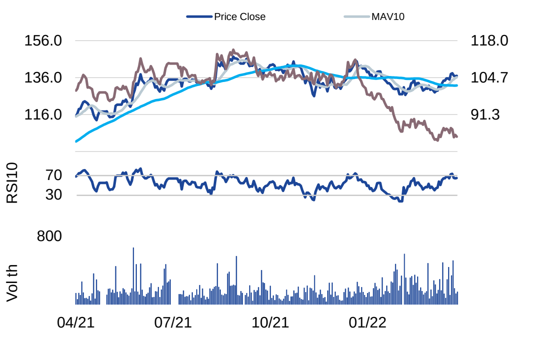
Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

SARmn	FY21A	FY22E	FY23E
Revenue	5,834	5,990	6,137
Revenue Growth	-2.2%	2.7%	2.5%
Gross profit	1,184	1,168	1,227
Gross margin	20.3%	19.5%	20.0%
EBIT	478	456	479
EBIT Margin	8.2%	7.6%	7.8%
EPS	6.61	6.60	6.96
EPS Growth	41.7%	-0.2%	5.4%
DPS	4.50	4.50	4.50
Payout Ratio	68%	68%	65%
ROE	44%	38%	35%

Source: Company data, Al Rajhi Capital

Extra

Good result; however, TP lowered to SAR150/sh.

Extra's top-line came in stronger than expected at SAR1,411.6mn (+3.5% y-o-y), resulting in a beat of c.10%. This beat could primarily be attributed to the strong performance of the consumer finance business which continues to show good growth while the retail business remains largely flat. The consumer finance subsidiary also contributed handsomely to the gross margin of the overall business and as such the gross profit came in at SAR290mn vs. our estimate of SAR258mn. Although the overall result has been good it has been largely dependent on the consumer finance business to ensure healthy bottom line while the core business saw only a moderate growth. We believe Extra has some major headwinds in terms of inflation pressure and chip shortage (which reflects in the elevated lead time). We note that the inflation adds to the top-line due to higher pricing however the entire increment in cost is not passed on to the customers and thus could inhibit the margin growth for the retail business. Moreover, the increased pricing along with the onset of higher interest rate environment could lower the customer's purchasing power and thus impact demand. However, the consumer finance business continues to look promising and can aid in offsetting some of this impact. We lower our target price to SAR150/sh from the previous TP of SAR165/sh implying an upside of 11.6% from the current market price of SAR134. The company is currently trading at 20.4x its FY22e EPS.

Q1 2022 earnings summary: Total revenue saw an increase of 3% y-o-y to SAR1.412bn (+10% beat), aided by growth in the finance subsidiary while the retail business reeled under the pressure of chip shortage and inflation. Although the sales were positively impacted by lower Covid-19 related restrictions which resulted in improved footfall, the lack of a steady supply of chips continues to impact the overall supply of electronic goods and thus keeps the top-line growth under pressure. Nevertheless, the company showed some improvement in gross margin, which was 53bps higher than our estimate. Improved margin and better sales aided the company in posting a gross profit of SAR290mn (+11.4% y-o-y), higher than our estimate of SAR258mn. However, the operating expenses also came in higher than estimated and outgrew the top-line growth indicating the inflationary pressure. The overall net income increased 20% y-o-y to SAR97mn led by robust contribution of SAR54mn from the consumer finance business and was in-line with our estimate.

Figure 1 Extra 1Q 2022 earnings summary

(SAR mn)	1Q 2022	1Q 2021	*Y-o-Y*	4Q 2021	*Q-o-Q*	ARC est	*vs ARC*
Revenue	1,412	1,364	*3%*	1,767	*-20%*	1,289	*10%*
Gross profit	290	260	*11%*	353	*-18%*	258	*12%*
Gross margin	21%	19%		20%		20%	
Operating profit	113	96	*18%*	147	*-23%*	103	*10%*
Operating margin	8%	7%		8%		8%	
Net profit	97	81	*20%*	126	*-23%*	97	*0%*
Net margin	7%	6%		7%		8%	

Source: Company data, Al Rajhi Capital

Valuation and outlook: Extra is a leading player in the electronics goods retail space and we believe its leading position, the strong consumer finance business, and the general increase in demand for electronics owing to higher housing penetration should keep the long terms prospects of strong performance, intact. However, the on-going chip shortage, inflationary pressure, the geo-political situation, and the reversal in the rate cycle could act as an impediment to its growth in the short run and will keep the top-line as well are margins under pressure.

We value the business using an equal mix of DCF and relative valuation. Our DCF valuation is based on 2% terminal growth and 9.9% WACC which gives a tp of SAR165/sh. While the relative valuation is based on PE of 22x on estimated EPS of SAR6.6 for FY22 and gives a TP of SAR136/sh. As such the final TP comes to SAR150/sh which implies an upside of 11.6% from the CMP of SAR134 and thus we continue to remain “Overweight” on the stock.

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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.

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