

United Electronics Co. Extra

Extra Kicks Off Year With Strong Q1 2021 Margins

United Electronics Co. (Extra) showed healthy margins for Q1 2021, due to significant growth in its consumer finance services, in addition to growth in extra services. Despite the bleak outlook in the retail segment on the short term, we believe that extra shall maintain its strong margins going forward due to the contribution of the consumer financial services "Tas'heel Finance" to the company's top-and bottom line numbers.

Extra reported revenues of SAR1,365mn for Q1 2021, representing a Y-o-Y growth of 10.8% (-30.2% Q-o-Q). While the on quarterly basis, the company's drop in sales is mainly due to seasonality (Annual Mega Sale in Q4), the company's impressive growth was due to the increasing contribution of "Tas'heel Finance" (consumer finance service) to the revenue as we previously expected. Moreover, the company reported some growth across retail segments and extra services, suggesting gradual normalization of demand on retail. COGS grew by 9.0% Y-o-Y (-32.3% Q-o-Q), parallel to revenue growth, yet extra reported gross profit of SAR262mn, representing growth of 18.6% compared to SAR51mn reported in Q1 2020.

Gross profit margin stood at 19.2% in Q1 2021, compared to that of 17.9% reported in Q1 2020. It is worth noting that the company's gross margin for Q1 2021 is the highest reported gross margin since Q2 2019 (19.5%).

SG&A grew by 15.6% Y-o-Y (+32.4% Q-o-Q), however, operating profit grew from SAR50.6mn in Q1 2020 to SAR97.2mn representing a Y-o-Y growth of 91.8% (-19.3% Q-o-Q). Operating profit margin for the quarter was 7.1%, a significant leap from the 4.1% operating margin reported in Q1 2020.

Extra's strong topline performance significantly supported its bottom line performance for Q1 2021. The company reported net income of SAR81.0mn, representing a total of 133.7% growth compared to SAR34.6mn reported in Q1 2020 (-20.2% Q-o-Q). That being said, net income margin stood at 5.9% for Q1 2021, higher than 2.8% reported in Q1 2020 and the 5.2% reported for Q4 2020.

It is worth noting that the impressive net income margin achieved for Q1 2021, included a total of SAR20.2mn in net income from consumer finance services Vs losses of SAR4mn in Q1 2020.

For Q1 2021, the company showed healthy margins, which was foreseen due to significant growth in its consumer financial services. We believe that the segment will continue to grow tremendously in the short and medium term until it reaches the beginning of its maturity by FY2026e. That being said, the contribution from the company consumer finance services is expected to significantly support the company's margins as demand on retail flattens out. The COVID-19 vaccine rollout in the region has begun since the beginning of the year, which suggests that the lift on movement restriction could be sooner than expected. We believe that as soon as movement restrictions are lifted, consumers will direct their spending towards travel, further contributing to the flattening out of the retail demand.

We update our 52 weeks target price SAR119.5/share with a Neutral recommendation.

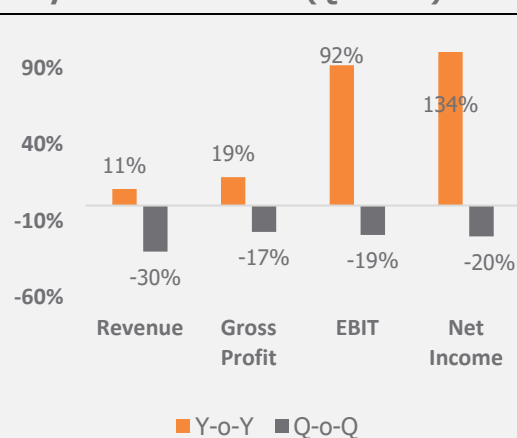
18 April 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (18-04-2020)	SAR115.2
Target Price (52 Weeks)	SAR119.5
Upside/ (Downside)	3.7%
Shariah Compliance	Pass

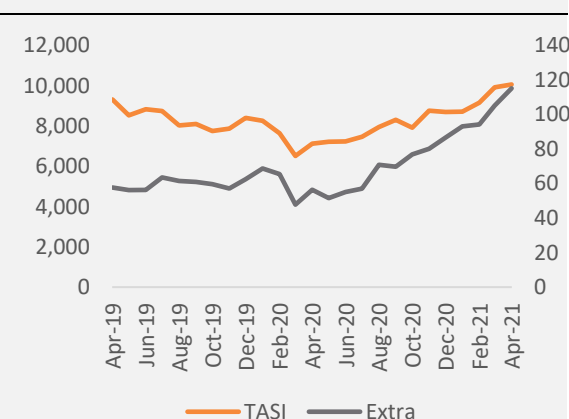
Key Financial Ratios

Ratio	Q1 2021	Q4 2020	Q1 2020
Revenue Growth	10.8%	3.9%	16.5%
Gross Margin	19.2%	16.2%	17.9%
EBIT Margin	7.1%	6.2%	4.1%
Net Margin	5.9%	5.2%	2.8%

Key Financial Results (Q1 2021)



Share Price Performance



Financial Projection

DCF Valuation

	2021 F	2022 F	2023 F	2024 F	2025 F	2026 F
EBITDA	383	400	418	436	454	473
Operating CF	401	374	366	384	404	442
Capex	(82)	(84)	(87)	(90)	(93)	(96)
FCFF	319	290	279	294	311	346
Stub Period (FCF to be discounted)	240	290	279	294	311	346
PV (FCFF)	227	254	226	221	215	221
WACC	7.72%					
Perpetuity Growth	2.00%					
PV-FCFF	1,364					
PV-TV	3,818					
Net Debt	(408)					
Less: End of services benefits	(70)					
Intrinsic Values	4,703					
Shares Outstanding	60					
Fair Value Per Share	SAR 78.4					

We have valued Extra's retail segment using DCF approach, considering a WACC is equal to 7.7% (based on a risk-free rate of 2.7%, market risk premium 7.0%, Beta of 1.1).

Residual Income Valuation

	2021 F	2022 F	2023 F	2024 F	2025 F	2026 F
Net Income	94	150	212	272	327	371
Equity Charge	43	58	78	105	136	172
Economic Value Added (EVA)	51	92	133	167	191	198
Discount Factor	0.93	0.85	0.77	0.71	0.64	0.59
NPV of EVA	36	78	103	118	123	116
<i>EVA Forecast period</i>	575					
Perpetual Growth Rate	2.00%					
Terminal Value	2,625					
<i>Terminal Value Discounted</i>	1,541					
<i>Required Equity</i>	352					
Total Fair Value	2,467					
Number of shares	60					
Fair Value Per Share	SAR 41.1					

We have valued Tasheel Finance using Residual Income approach, considering a Cost of Equity equal 10.6% (based on a risk-free rate of 2.7%, market risk premium 7.0%, Beta of 1.1).

Extra's Fair Value

We have valued United Electronics Co. (Extra) using a combination of DCF approach for its retail segment, and the Residual Income approach of its consumer finance segment "Tasheel".

Total Equity value	7,170
Shares outstanding, mn	60
SOTP value per share/ SAR	119.5
CMP (18-04-2021)	115.2
Upside potential	3.7%

Financial Projection

Financial Ratios	2019 A	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F	2026 F
Return on Average Assets (%)	8.9%	10.1%	10.3%	11.4%	12.4%	13.2%	13.8%	14.0%
Return on Average Equity (%)	31.5%	37.7%	35.6%	36.0%	35.0%	33.2%	31.2%	28.4%
Earnings Before Zakat Margin	4.3%	5.0%	5.6%	6.5%	7.4%	8.2%	8.9%	9.4%
Net Income Margin (%)	4.0%	4.7%	5.2%	6.0%	6.9%	7.6%	8.3%	8.7%
Revenue Growth (%)	16.9%	16.1%	2.6%	4.3%	4.3%	4.1%	3.9%	3.6%
EPS	3.4	4.7	5.3	6.4	7.6	8.8	9.9	10.8

Income Statement	2019A	2020E	2021F	2022F	2023F	2024F	2025A	2026E
Revenues	5,135	5,962	6,116	6,378	6,651	6,926	7,198	7,459
Cost of Revenues	(4,233)	(4,917)	(4,918)	(5,051)	(5,187)	(5,325)	(5,466)	(5,609)
Gross Profit	901	1,046	1,198	1,327	1,464	1,600	1,732	1,849
SG&A	(553)	(582)	(692)	(735)	(783)	(833)	(885)	(939)
Zakat	(13)	(18)	(22)	(28)	(35)	(41)	(47)	(51)
Net Income	206	280	318	384	457	528	595	651

Balance Sheet	2019 A	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F	2026 F
Current Assets	1,427	1,551	1,702	1,870	2,058	2,222	2,431	2,711
Non-Current Assets	1,208	1,379	1,516	1,663	1,808	1,941	2,041	2,084
Total Assets	2,635	2,929	3,219	3,533	3,866	4,163	4,472	4,794
Current Liabilities	1,325	1,286	1,327	1,386	1,421	1,432	1,417	1,391
Non-Current Liabilities	650	818	927	978	1,000	997	965	904
Total Equity	660	826	964	1,168	1,445	1,733	2,089	2,499
Total Liabilities and Equity	2,635	2,929	3,219	3,533	3,866	4,163	4,471	4,794

Guide to Ratings and Disclaimer

Guide to Ratings

Buy	An upside potential of more than 20% in 52-week period
Overweight	An upside Potential of more than 10% in 52-week period
Neutral	Will stay in the range of it value (up/down 10%) in a 52-week period
Underweight	A downside potential of more than 10% in 52-week period
Sell	A downside potential of more than 20% in 52-week period

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