United Electronics Company

Retail – Industrial
EXTRA AB: Saudi Arabia
22 April 2015

الراجحي المالية
Al Rajhi Capital

US$0.840bn	40%	US$3.735mn
Market cap	Free float	Avg. daily volume

Target price	**106.0**	11.9% over current
Consensus price	**106.1**	11.9% over current
Current price	**94.8**	**as at 20/4/2015**

Existing rating

Underweight	**Neutral**	Overweight

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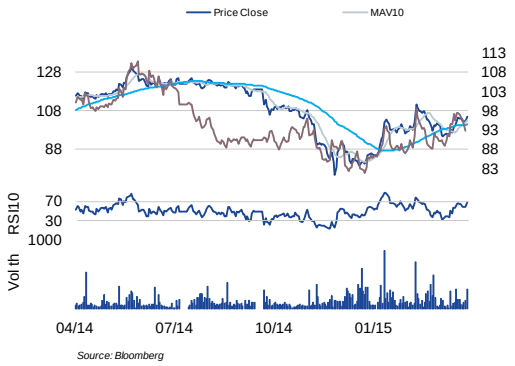
Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance

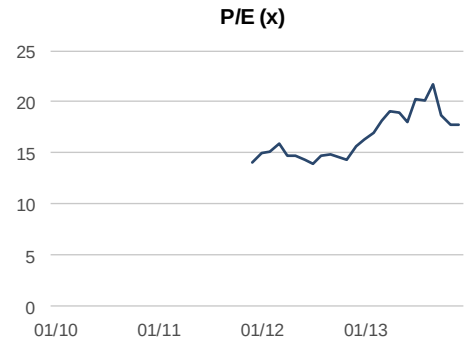


Earnings

Period End (SAR)	12/12A	12/13A	12/14A	12/15E
Revenue (mn)	3,015	3,388	3,689	4,309
Revenue Growth	22.5%	12.4%	8.9%	16.8%
EBITDA (mn)	192	210	170	228
EBITDA Growth	21.2%	9.9%	-19.3%	34.5%
EPS	5.29	5.58	4.04	5.80
EPS Growth	20.1%	5.5%	-27.6%	43.7%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

United Electronics Co. (Extra)
Q1 results surprisingly poor

Extra reported a surprisingly poor set of results for Q1 2015 with its net profit coming in at SAR16.1mn (-45.1% y-o-y) missing our (SAR37.5mn) as well as consensus estimates (SAR32.5mn) by a wide margin. The company's revenues increased by a modest 8% y-o-y to SAR872mn, while we expected a sharp double-digit growth in its top-line on the back of the two-month bonus paid by the Saudi government and some private companies. The fall in profits is primarily due to the sale of the low-margin excess inventory from the Q4 2014 Mega Sale event in this quarter. We expect the company's margins to normalize from Q2 2015, though store sales growth may remain subdued. We will revisit our estimates following a discussion with the management and the release of the detailed financial results. For now, we reiterate our Neutral rating on the company with a target price of SAR106.

Earnings vs our forecast	Above	In Line	**Below**
Likely impact:			
Earnings estimates	Up	No Change	**Down**
Dividend estimates	Up	**No Change**	Down
Recommendation	Upgrade	**No Change**	Downgrade
Long term view	Stronger	**Confirmed**	Weaker

- **Revenues:** Extra's Q1 top-line of SAR872mn (up 8% y-o-y) came in below our estimate of SAR952.6mn, although it was in-line with the consensus estimate of SAR889mn. We had expected the bonus and rise in store count (from 37 to 39) to bolster the revenues.
- **Gross and operating profit:** Extra's gross profit of SAR134.2mn (-7.3% y-o-y) missed our forecast of SAR168.6mn. We believe the gross profit took a hit as the company sold leftover inventory from the Mega Sale event (held in Q4) at lower prices. Gross margin fell by ~260bps to 15.4%, lower than our 17.7% forecast. The fall in gross profit as well as an increase in selling and other expenses led to a 42.8% y-o-y plunge in the company's operating profit to SAR17.5mn, missing our as well as consensus estimates of SAR38.1mn and 32.5mn respectively, by a wide margin.
- **Net profit:** Extra's bottom-line dropped 45.1% y-o-y to SAR16.1mn, missing our (SAR37.5mn) as well as consensus (SAR31.3mn) estimate. Net margin declined by ~180bps y-o-y to 1.8%.

Figure 1 Extra: summary of Q1 2015 results

(SAR mn)	Q1 2014	Q4 2014	Q1 2015	% chg y-o-y	% chg q-o-q	ARC est
Revenue	807.3	1,088.7	872.0	8.0%	-19.9%	952.6
Gross profit	144.8	163.9	134.2	-7.3%	-18.1%	168.6
Gross profit margin	17.9%	15.1%	15.4%			17.7%
Operating profit	30.6	8.8	17.5	-42.8%	99.3%	38.1
Net profit	29.3	8.4	16.1	-45.1%	91.3%	37.5

Source: Company data, Al Rajhi Capital

Conclusion: Extra's Q1 performance was primarily pressured by sales of leftover inventory from the Mega Sale event of Q4 2014, which it might have sold at lower prices, largely offsetting the benefits from the increased discretionary spending due to the recently distributed two-month bonus. We expect the company's margins to normalize from Q2 2015, though the same store sales growth may remain subdued. The stock has reacted sharply to the results, falling 9.7% in a single trading session. We will revisit our estimates following a discussion with the management and the release of detailed financials. For now, we are continuing with our Neutral rating on the stock with a target price of SAR106 a share.

Major Developments

Extra pays SAR0.5 per share dividend for Q1 2015

Extra announced a dividend payment of SAR0.5 per share for Q1 2015, translating into a total payout of SAR15mn. The dividend payment has been reduced from SAR1 per share paid in Q1 2014. Based on this, the company is trading at an annualized dividend yield of 2.1%.

Disclaimer and additional disclosures for Equity Research

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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"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 6-9 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 6-9 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 6-9 month time horizon.**

2. Definitions

"Time horizon": **Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.**

"Fair value": **We estimate fair 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.**

"Target price": **This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.**

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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