

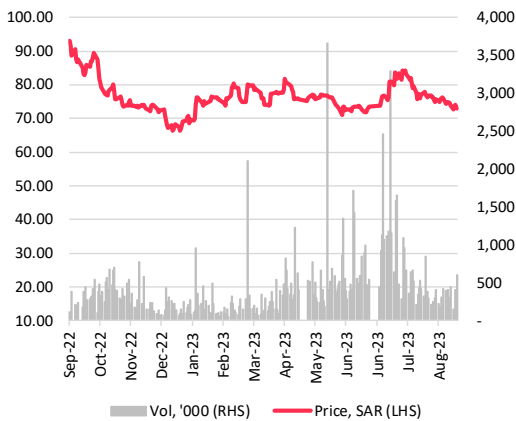
United Electronics

Target Price: SAR 90.4/share

Upside: 18.2%

Recommendation	Buy
Current Market Price (SAR)	76.50
52wk High / Low (SAR)	92.97/65.90
Mkt. Cap. (USD/SAR Mn)	1,556/5,840
Shares Outstanding (mn)	80.0
Free Float (%)	77%
3m Average Vol. (000)	650.2
3m Avg Daily Turnover (SAR'000)	50,442.9
Dividend Yield '23e (%)	4.3%
P/E'23e (x)	15.7
EV/EBITDA'23e (x)	2.0

Price Volume Performance



Price to EPS



Major Shareholders (%)

Al-Fawzan Holding Company	20.00%
Fahmi Mohammed Galal A	3.30%
Vanguard Group	1.81%
Blackrock	1.25%

Source: Bloomberg, Yaqeen Capital

We initiate coverage on United Electronics (eXtra) and assign a 'BUY' rating with a target price of SAR 90.4/sh., offering an upside of 18.2%. The stock currently trades at FY23e P/E of 15.7x.

eXtra stands out as a major player in consumer electronics retail

The consumer electronics market is on a growth trajectory, with eXtra leading the way with ~20% market share. The company operates through a network of 54 stores, primarily located in Saudi Arabia (49 stores) across 31 cities, along with Oman and Bahrain (5 stores). On average, the company has been adding 2 stores annually and the trend is likely to continue in the coming years to further increase its market share. Moreover, eXtra has successfully expanded its market presence into the online realm through 'extra.com.'. Going forward, we expect the company revenues to grow at a CAGR of 4.5% in its retail segment from FY22 to FY27e.

Tasheel's Operations: A key catalyst for bottom-Line growth in medium term

In FY19, eXtra introduced its consumer finance subsidiary, Tasheel, specializing in offering Shariah-compliant financial products like Tawarruq (personal finance) and Murabaha (product finance). Over three years, Tasheel's personal finance loan portfolio has grown tenfold, turning FY19 loss of SAR 18.8mn into a profit of SAR 21.3mn in FY22. Further, the income from Islamic financing contracts is expected to achieve a CAGR of ~19% from FY22 to FY27e, bolstered by the growing consumer interest in digital financing solutions.

Margins continue to improve in the coming years

eXtra has consistently experienced margin growth, with gross margins expanding to 21.0% in FY22 from 17.7% in FY18, while operating margins surged to 8.0% in FY22 from 4.1% in FY18. This steady margin enhancement can be attributed to improved operational efficiencies, driven by increasing revenues and the improving profitability of the consumer finance segment. Looking ahead, we anticipate this trend to persist as the impact of fixed costs continues to wane, supported by rising revenues. Further, bottom-line margins are expected to improve, albeit at a slower pace, due to potentially higher finance costs resulting from increased debt levels and elevated interest rates. This effect could be partially mitigated by the potential reduction in interest rates in the foreseeable future.

Healthy dividend payouts

eXtra has established a strong history of consistently increasing its dividend per share payments over the years. In 2022, shareholders were rewarded with a dividend of SAR 3.9 per share. However, the company may cut DPS to SAR 3.0 per share in FY23e (yield: 4.3%) due to short-term business challenges. In the medium-term, the company is expected to maintain historical uptrend driven by strong cash flow visibility. This should be attractive to income seeking investors.

Key Indicators

Year	FY20	FY21	FY22	FY23e	FY24e	FY25e
Revenues (SAR mn)	5,962	5,834	6,031	6,140	6,532	6,952
Net income (SAR mn)	280	397	440	352	469	531
Gross margin	17.4%	20.3%	21.0%	21.5%	21.8%	22.0%
Net profit margin	4.7%	6.8%	7.3%	5.7%	7.2%	7.6%
RoE	37.7%	43.6%	41.3%	29.4%	35.1%	35.0%
DPS (SAR/share)	2.3	3.4	3.9	3.0	3.8	4.3
P/E (x)	19.3x	21.3x	12.6x	15.7x	11.8x	10.4x
EV/EBITDA (x)	0.3x	0.9x	1.7x	2.0x	1.9x	2.0x

Source: Company Reports, Yaqeen Capital



Valuation Summary

We arrived at the target price on the stock using a blend of DCF and relative valuation. For DCF, we have used a 5-year explicit forecast period (2023-27), terminal growth rate of 2%, and weighted average cost of capital (WACC) of 6.2%. For relative valuation, we have used average 1 year forward P/E multiple and FY24e EPS to arrive at the fair value estimate. We assigned equal weightings to fair values derived using DCF and relative valuations, to arrive at a target price of SAR 90.4.

DCF Method	FY23e	FY24e	FY25e	FY26e	FY27e
	12/31/2023	12/30/2024	12/30/2025	12/30/2026	12/30/2027
No. of days	105	470	835	1,200	1,565
Time Remaining (Years)	0.29	1.29	2.29	3.29	4.29
Operating Profit Before Interest and Tax	467	580	648	720	796
growth(%)		24.1%	11.9%	11.0%	10.6%
Tax rate	10.0%	8.0%	8.0%	8.0%	8.0%
Post-tax Operating Profit (NOPAT)	420	533	597	662	732
Add: Depreciation & Amortization	118	125	132	144	156
Less: Change in Working Capital	(253)	(332)	(363)	(380)	(343)
Less: Lease Payments	(50)	(50)	(50)	(53)	(56)
Less: Capex	(87)	(92)	(84)	(90)	(95)
Free Cash Flow to Firm	149	184	232	283	395
Discount factor	0.98	0.93	0.87	0.82	0.77
PV of Free Cash Flows	146	170	202	232	305
Sum of Present Values of FCFs	1,055				

Free Cash Flow (t+1)	403
Terminal Value	9,528
Present Value of Terminal Value	7,353

EV	8,408	Inputs	
Less:		Valuation Date	9/17/2023
Debt	(1,278)	Risk free rate (Rf)	4.6%
Minority Interest	-	Adjusted Beta	0.9
Employee Retirement Benefits	(85)	Market Risk Premium (Rm-Rf)	7.0%
Add:		Cost of Equity (Ke)	10.6%
Cash and Bank Balances	332	Terminal or perpetual growth rate (g)	2.0%
Equity Investment	-	Pre-tax Cost of Debt	1.5%
Equity Value	7,377	Effective Tax rate	10.0%
Number of Share Outstanding	80	After-tax Cost of Debt (excluding lease liabilities)	1.4%
Fair Value per Share (SAR)	92.2	D/D+E (excluding lease liabilities)	47.2%
Upside/Downside	20.5%	WACC	6.2%
Current Price	76.5		

Relative Valuation

EPS 2024e (SAR)	5.87
Target P/E multiple for 2024E (x)	15.1x
Target value per share (SAR)	88.6

Valuation Method	Fair Value per share (SAR)	Weightage	Weighted value per share (SAR)	Upside/downside
DCF Valuation	92.2	50.0%	46.1	20.5%
Relative Valuation - P/E	88.6	50.0%	44.3	15.8%
Fair Value (SAR)	90.4			
CMP (SAR)	76.5			
Upside/(Downside)	18.2%			

Source: Company Reports, Bloomberg, Yaqeen Capital

Key Charts

Fig. 1: Saudi economy remains on a robust growth path

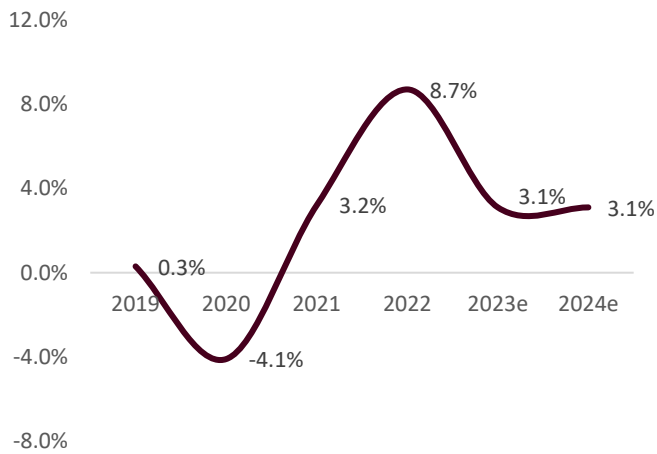


Fig. 2: Per capita spending rose ~7% over the last 5 years in KSA

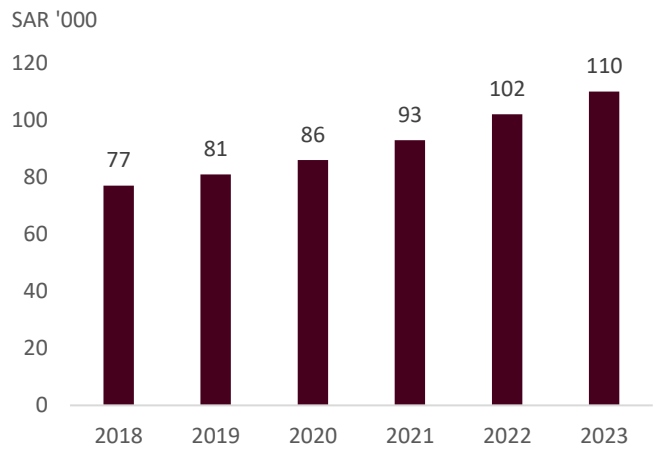


Fig. 3: Higher % of median age population

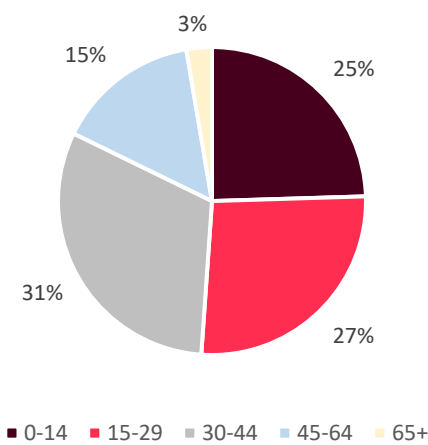


Fig. 4: Internet penetration in Saudi Arabia

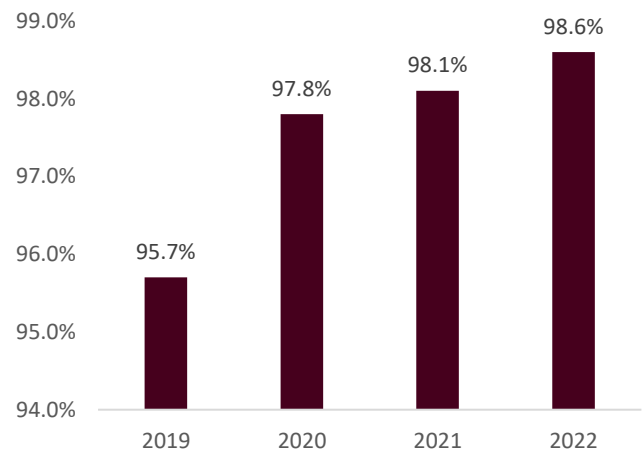


Fig. 5: POS sales and transactions from consumer electronics

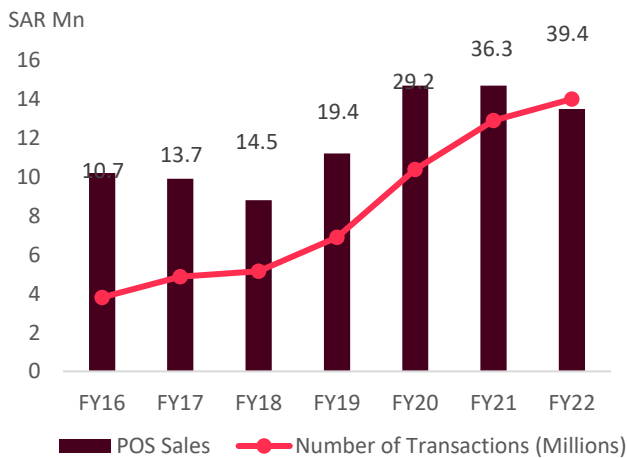
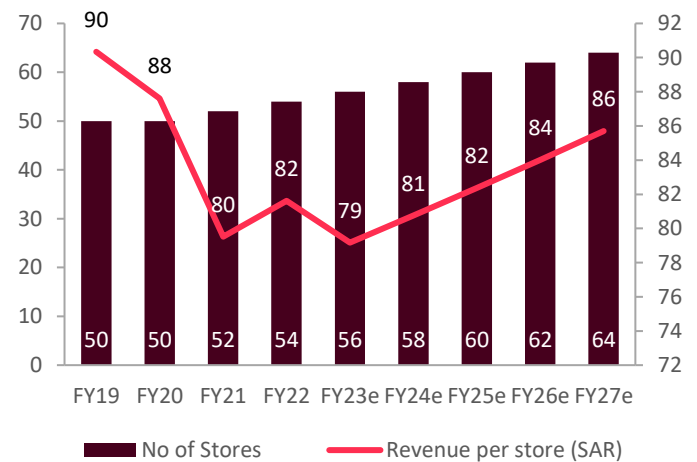


Fig. 6: Increasing number of stores continues to aid growth



Source: Company Reports, GASTAT, SAMA, Yaqeen Capital

Fig. 7: Online sales normalized at c18-19% from 23% during Covid

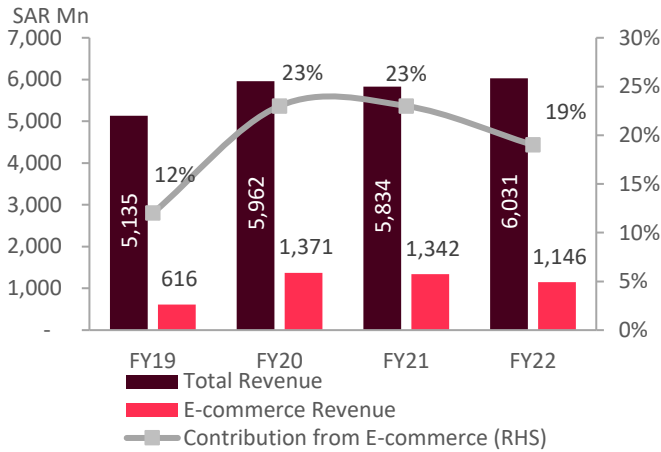


Fig. 8: Growing Loan size for Tasheel

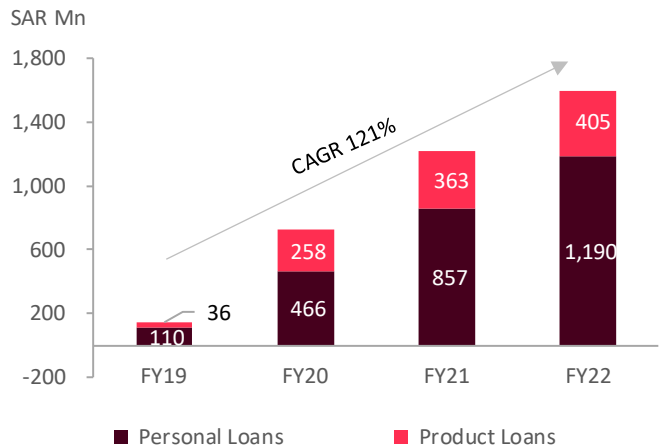


Fig. 9: eXtra Likely to sustain margins

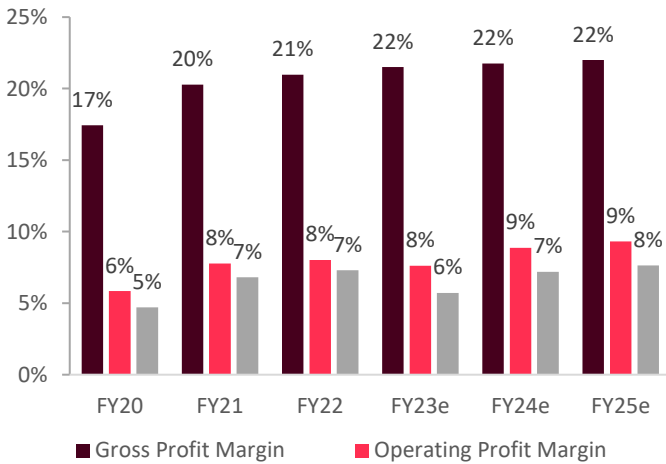


Fig. 10: ROA, ROE, Asset Turnover

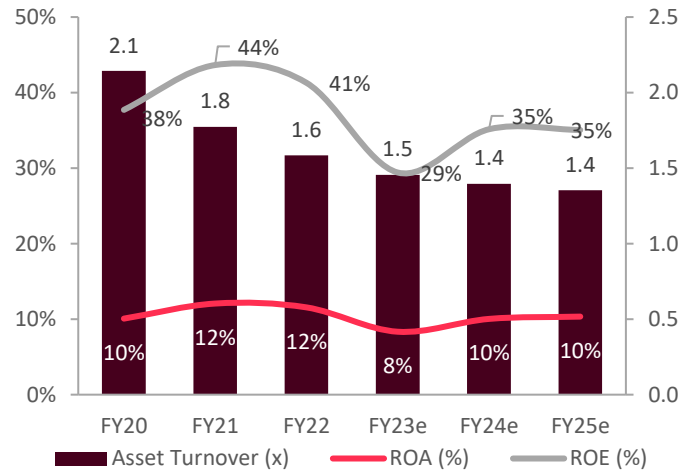


Fig. 11: Low Leverage maintained alongside steady coverage ratio

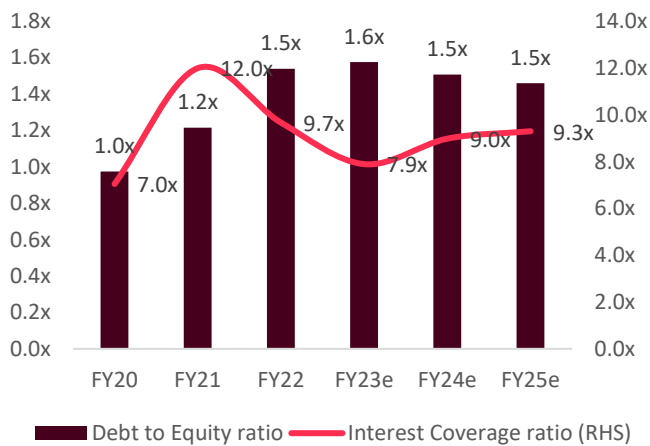
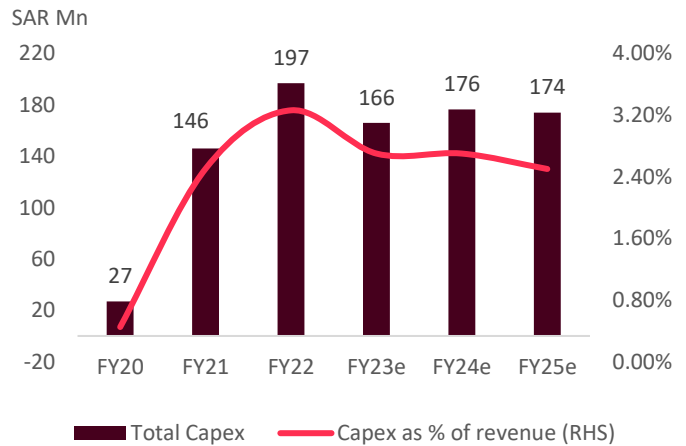


Fig. 12: Capex as % of revenue



Source: Company Reports, Bloomberg, Yaqeen Capital

Summary Financials

Income Statement	FY19	FY20	FY21	FY22	FY23e	FY24e	FY25e	FY26e	FY27e
Net sales/Revenues	5,135	5,962	5,834	6,031	6,140	6,532	6,952	7,385	7,819
Cost of sales	4,233	4,923	4,650	4,766	4,820	5,111	5,423	5,742	6,060
Gross profit	902	1,039	1,184	1,265	1,320	1,421	1,530	1,643	1,759
General and administrative expenses	(143)	(155)	(167)	(184)	(227)	(198)	(207)	(217)	(226)
Operating profit	250	349	453	484	467	580	648	720	796
Other revenues	31	25	17	42	7	8	6	5	6
Finance cost	(57)	(50)	(38)	(50)	(59)	(65)	(70)	(76)	(81)
Profit before zakat and income tax	220	298	427	472	391	510	577	642	713
Zakat	(13)	(18)	(31)	(32)	(39)	(41)	(46)	(51)	(57)
Profit for the period	206	280	397	440	352	469	531	590	656
EPS	2.6	3.5	5.0	5.5	4.4	5.9	6.6	7.4	8.2
DPS	1.4	2.3	3.4	3.9	3.0	3.8	4.3	4.5	4.8

Balance Sheet	FY19	FY20	FY21	FY22	FY23e	FY24e	FY25e	FY26e	FY27e
Cash and cash equivalents	103	185	173	147	164	113	102	124	159
Trade receivables, net	146	96	117	130	125	130	139	147	156
Inventories	913	936	1,203	1,080	1,116	1,129	1,154	1,208	1,261
Right of use leased assets	448	399	424	451	489	529	572	614	655
Property, plant and equipment, net	477	452	447	495	518	542	554	566	579
Total assets	2,635	2,929	3,648	3,970	4,468	4,890	5,390	5,945	6,478
Long term loans	0	183	603	402	746	814	902	992	1,043
Lease Liabilities	507	465	519	573	613	659	710	765	824
Trade payables	808	972	1,115	690	854	911	981	1,055	1,132
Total liabilities	1,975	2,104	2,656	2,831	3,217	3,469	3,778	4,103	4,360
Share capital	500	600	600	800	800	800	800	800	800
Retained earnings	130	213	340	327	439	608	799	1,030	1,306
Equity Attributable to Shareholders	660	826	993	1,139	1,251	1,420	1,611	1,842	2,118

Cash Flow Statement	FY19	FY20	FY21	FY22	FY23e	FY24e	FY25e	FY26e	FY27e
Net cash generated from operating activities	70	353	-17	-65	217	266	306	359	474
Net cash generated from investing activities	-91	-36	-48	-104	-87	-92	-84	-90	-95
Net cash (used in) provided by financing activities	-87	-228	53	146	-113	-225	-232	-248	-344
Cash and cash equivalents at the end of the period	104	192	173	147	164	113	102	124	159

Ratios	FY19	FY20	FY21	FY22	FY23e	FY24e	FY25e	FY26e	FY27e
Gross margin (%)	17.6%	17.4%	20.3%	21.0%	21.5%	21.8%	22.0%	22.3%	22.5%
EBITDA margin (%)	6.8%	7.7%	9.5%	9.8%	9.5%	10.8%	11.2%	11.7%	12.2%
Operating margin (%)	4.9%	5.9%	7.8%	8.0%	7.6%	8.9%	9.3%	9.7%	10.2%
Net margin (%)	4.0%	4.7%	6.8%	7.3%	5.7%	7.2%	7.6%	8.0%	8.4%
ROA	9.0%	10.1%	12.1%	11.6%	8.3%	10.0%	10.3%	10.4%	10.6%
ROE	31.6%	37.7%	43.6%	41.3%	29.4%	35.1%	35.0%	34.2%	31.0%
Current Ratio (x)	1.1	1.2	1.5	1.2	1.4	1.4	1.4	1.4	1.4
Capex/Sales	1.5%	0.4%	0.6%	1.5%	1.2%	1.2%	1.0%	1.0%	1.2%
Debt-Equity Ratio	1.4	1.0	1.2	1.5	1.6	1.5	1.5	1.4	1.3
BVPS	8.2	10.3	12.4	14.2	15.6	17.8	20.1	23.0	26.5
Dividend Payout Ratio	0.5	0.6	0.7	0.7	0.7	0.6	0.6	0.6	0.6
Dividend Yield (%)	2.9%	3.3%	3.2%	5.6%	4.3%	5.4%	6.2%	6.5%	6.9%
P/E (x)	18.9	19.3	21.3	12.6	15.7	11.8	10.4	9.4	8.4
P/BV (x)	5.9	6.5	8.5	4.9	4.4	3.9	3.4	3.0	2.6
EV/EBITDA (x)	0.9	0.3	0.9	1.7	2.0	1.9	2.0	1.9	1.8

Source: Company Reports, Bloomberg, Yaqeen Capital



Rating Methodology

Buy: The Target share price exceeds the current share price by $\geq 10\%$

Hold: The Target share price is either more or less than the current share price by 10%

Sell: The Target share price is less than the current share price by $\geq 10\%$

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