

United Electronics

Target Price: SAR 106.8/share

Upside: 15.4%

Recommendation	Accumulate
Current Market Price (SAR)	92.6
52wk High / Low (SAR)	92.90/68.30
Mkt. Cap. (USD/SAR Mn)	1,949/7,312
Shares Outstanding (mn)	80
Free Float (%)	77%
3m Average Vol. (000)	515.0
3m Avg Daily Turnover (SAR'000)	41,913
Dividend Yield '24e (%)	4.0%
P/E'24e (x)	15.6
EV/EBITDA'24e (x)	1.8

Source: Bloomberg

Relative Price Performance



Key Indicators

Year	2021	2022	2023e	2024e
Revenue	5,834	6,031	6,251	6,648
Gross profit	1,184	1,265	1,358	1,446
GPM	20%	21%	22%	22%
EBIT	453	484	508	586
EBIT margin	8%	8%	8%	9%
EBITDA	554	593	626	711
Net Income	397	440	404	475
Net margin	7%	7%	6%	7%
EPS	4.96	5.50	5.05	5.94
RoE	44%	41%	33%	34%

Source: Company Reports, Yaqeen Capital

Major Shareholders (%)

Al-Fawzan Holding Company	20.00%
Fahmi Mohammed Galal A	3.30%
Vanguard Group	1.90%
Blackrock	1.18%

Source: Bloomberg, Yaqeen Capital

Strong Q3 performance led by margins improvement

- Extra net income grew strongly by 25.6% YoY to SAR 118mn in 3Q2023 driven by a notable improvement in margins across all levels as well as higher revenues. For 3Q2023, net margin improved to 8.1% (+128bps YoY, +462bps QoQ). Consumer finance business posted net income of SAR 53.4mn (+18.2% YoY).
- On a sequential basis, net income was up by 91.8%, despite lower revenues, as base quarter included one-off impact of SAR 38mn related to closure of Egyptian operations during 2Q2023.
- Revenue came higher by 5.8% YoY supported by 4.3% YoY growth in sales & services segment (91% of 3Q2023 revenues) and 23.7% YoY rise in consumer finance business. However, revenue witnessed a 17.0% QoQ decline, a usual trend due to seasonal fluctuations. 2Q traditionally generates higher revenues owing to increased promotions and discounts during the period.
- Gross profit was up by 11.3% YoY (-1.7% QoQ) in 3Q2023 with corresponding margin improving by 114bps YoY (+358bps QoQ) to 23.0%. Operating profit increased by 38.7% YoY (+49.3% QoQ) while the margin expanded by 233bps YoY (+436bps QoQ) to 9.8% during the quarter.
- Consumer finance portfolio grew 23.0% YoY (+3.0% QoQ) in 3Q2023 despite higher interest rates and constrained consumer buying amid inflationary pressures.
- For 9M2023, net income declined by 17.1% YoY, despite higher revenues, owing to higher funding costs and recognition of one-off costs related to Egypt operations.

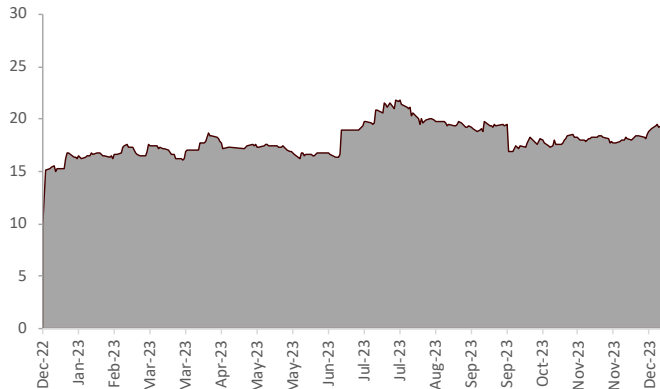
Outlook & Valuation: The stock continues to be a pure play on the solid domestic consumer growth story underpinned by young & growing population and rising income levels among locals due to declining unemployment rate & increasing female participation in the labor force. The company's earnings are expected to strengthen, driven by sustained momentum in the consumer finance segment and a consistently expanding consumer retail business (aided by expanding store network and rising share of organized retail). The stock is currently trading at a P/E of 15.6x (based on FY2024e EPS). We have assigned equal weightage to both DCF and P/E valuation methodologies to value the stock. After a robust performance in 3Q2023 and considering recent developments concerning IPO plans for the consumer finance division, we have raised our target price from SAR 90.4/share to SAR 106.8/share (15.4% upside from current levels). Accordingly, we continue to maintain our Buy recommendation on the stock.

Financial Summary

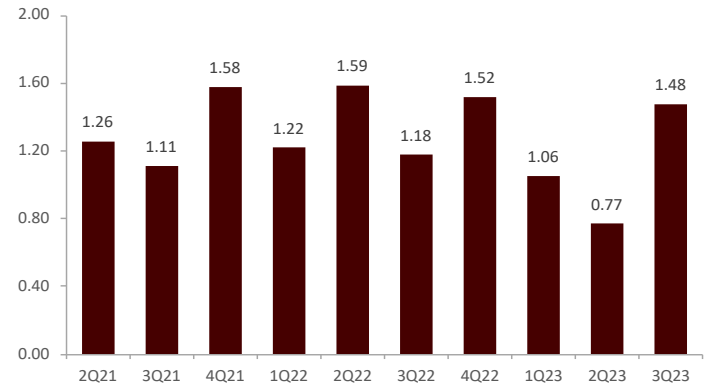
SAR (mn)	3Q2023	3Q2022	YoY	2Q2023	QoQ
Revenue	1,452	1,373	6%	1,750	-17%
Gross profit	334	300	11%	340	-2%
GPM	23%	22%		19%	
EBIT	143	103	39%	96	49%
EBIT margin	10%	7%		5%	
EBITDA	172	133	30%	124	39%
Net income	118	94	26%	62	92%
Net margin	8%	7%		4%	
EPS	1.48	1.18	26%	0.77	92%

Source: Company Reports, Yaqeen Capital

Price to Earnings Ratio Trend



EPS (SAR) Trend



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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