



Panda partnership to more than double retail footprint; while consumer finance loans are likely to reach SAR 3.1bn by 2026

We revise up our earning estimates and price target for Extra after incorporating the impact of recent partnership with Panda (which will more than double Extra's retail footprint) and increasing our Tasheel loan book estimate to SAR 3.1bn for 2026 from earlier expectation of SAR 2.7bn. Overall, we revise up our 2024/25/26E EPS forecasts by 5.8/8.4/12.9% Y/Y to SAR 5.8/6.9/8.1 per share, respectively. We highlight that the company is planning an IPO for its consumer finance business (Tasheel), which can unlock significant value for Extra. Trading at 2024E Fwd PE of 15.4x and offering a lucrative dividend yield of 4.2%, we maintain our **"Overweight"** rating with a revised target price of **SAR 111/share**, implying an upside of **24%** from last close.

Panda partnership to more than double retail footprint: Extra recently announced that it has signed a 10 year partnership with Panda retail company, whereby Extra will manage the electronic and home appliances department of Panda stores under the name "Clix". According to our understanding after the test trial conducted in 3 Panda hyper markets, Extra would expand its presence into 60 hyper panda stores by the end of 2024; currently Clix is managing 11 Panda stores. Clix will also manage smaller electronic sections of Panda Supermarkets. Note that Extra itself operates 53 stores, and this alliance would double Extra's presence on the map. Currently Extra makes ~SAR 80mn sales per store, assuming Clix is able to achieve SAR 17mn sales per store by 2025, it would be able to generate ~SAR 1bn revenue and ~SAR 160mn gross profit. Note that achieving this sales number wouldn't be much difficult because Panda already has a home appliances segment. Assuming 10 employees per store, we estimate the human resource expense for Clix to be ~SAR 43.2mn. Overall, we estimate Clix to make profit after Zakat of SAR 111mn, and Extra to make additional income of ~SAR 55mn (SAR 0.7/sh) in 2025, assuming 50/50 net profit sharing ratio.

Tasheel loan book size revised up to SAR 3.1bn by 2026 from earlier estimate of 2.7bn, we see positive impact on NIMs due to decline in interest rate: Extra's consumer finance business has grown by 63% over the last two years, looking at continuous momentum in consumer finance business and incremental sales through panda partnered stores we upwards revise our 2026 loan book estimate to SAR 3.1bn from SAR 2.7bn. We highlight that apart from the stronger balance sheet growth we also see the decline in interest rates to positively impact Tasheel's net interest margins, since the company did not pass on the increase in interest rates to customers. Note that Tasheel's loan book of ~SAR 1.8bn is sizably smaller than the regulatory limit of ~SAR 2.7bn, (based on 3x equity of ~SAR 900mn). Overall upwards revision in loan book, results in a positive annualized EPS impact of ~SAR 0.45 per share.

Q4-23 results in line with our expectations: Extra posted net income of SAR 126.1mn (up 3.9% YoY and 6.6% QoQ) in Q4-23, inline with our estimates. Revenues for the company grew by 0.8/7.3% QoQ/YoY to SAR 1,558.8mn in Q4-23. While retail sales saw a slight decline due to the impact of football worldcup in Q4-22, topline growth from cosumer finance business remained strong. Income from consumer finance business recorded a 11.5% YoY growth to SAR 55.2mn in Q4-23. Online sales accounted for 22.7% of total sales in Q4-23. On full year basis net profit dropped by 11.2% YoY to SAR 390.4mn due to augmenting of finance expenses by SAR 46.3mn and SAR 32.3mn one off expenses related to Egypt operations. Income from Tasheel grew by 9.7% YoY to SAR 212.3mn in 2023, the increase was smaller compared to the increase in loan book, since the company did not pass on the impact of increase in interest rates to consumers.

Recommendation	Overweight
Target Price (SAR)	111.0
Upside / (Downside)*	24.0%

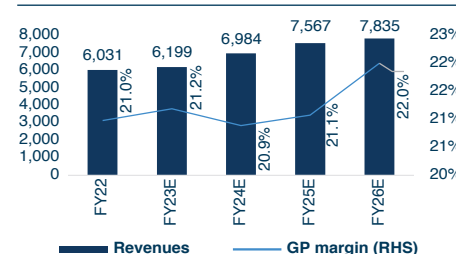
Source: Tadawul *prices as of 23rd January 2024

Key Financials

SARmn (unless specified)	FY22	FY23E	FY24E	FY25E
Revenue	6,031	6,199	6,984	7,567
Growth %	3.4%	2.8%	12.7%	8.3%
Gross Profit	1,265	1,313	1,459	1,595
Net Profit	440	391	464	550
Growth %	10.9%	-11.2%	18.7%	18.6%
EPS	5.85	4.88	5.80	6.88

Source: Company reports, Aljazira Capital Research

Fig 1: Revenue (SAR mn) and GP Margin



Source: Tadawul, Aljazira Capital Research

Key Ratios

	FY22	FY23E	FY24E	FY25E
GP Margin	21.0%	21.2%	20.9%	21.1%
Net Margin	7.3%	6.3%	6.6%	7.3%
P/E (x)	11.8	18.3	15.4	13.0
P/B (x)	4.9	5.6	4.9	4.1
EV/EBITDA (x)	11.3	14.9	13.4	12.1
Div Yield (%)	5.7%	3.6%	4.2%	5.0%

Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap(bn)	7.3
YTD%	-0.22%
52-week (High)/(Low)	94.6/70.9
Share Outstanding (mn)	80.0

Source: Company reports, Aljazira Capital Research

Price Performance

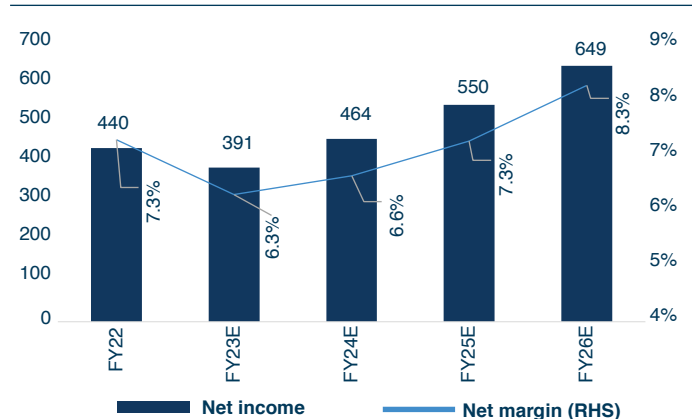


Source: Tadawul, Aljazira Capital Research

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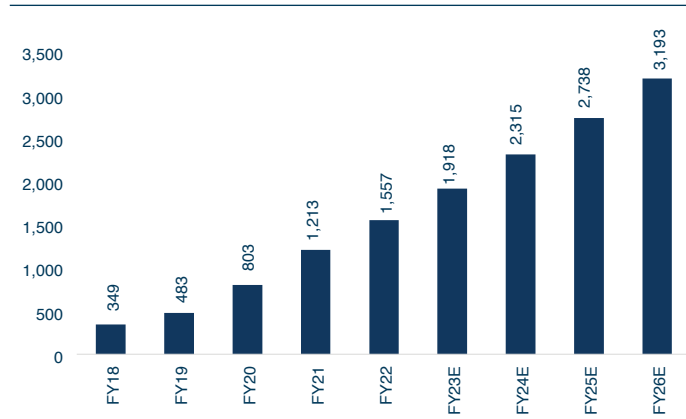


Fig 2: Net income (SAR mn) and NM Margin



Source: Company reports, AJC Research

Fig 3: Tasheel's loans portfolio to reach SAR 3.1bn by 2026



Source: Company reports, AJC research

Investment thesis: Extra's recent alliance with Panda will more than double its retail footprint and is forecasted to add SAR 55mn to Extra's bottomline once all 60 hyper panda's become fully operational by the end of 2024. This partnership will also boost tasheel's loan book, which is all set to benefit from the projected decline in interest rates. The company is planning an IPO for its consumer finance business (Tasheel), after completing required financial, legal and technical assessments. Tasheel's potential IPO can unlock significant value for Extra. Overall, our investment thesis is premised upon, strong growth in lucrative (NIMs: ~23%) consumer finance segment, positive outlook of consumer electronic business (supported by partnership with Panda stores and favorable demographics) and strong FY24E dividend yield of 4.2%.

Valuation: We have assigned equal weight to DCF and relative valuation (using EV/sales for retail business and PB for Tasheel) to value the stock. Trading at 2024E Fwd PE of 15.4x and offering a lucrative dividend yield of 4.2%, we maintain our **"Overweight"** rating with a upwards revised target price of **SAR 111/share**, implying an upside of **24%** from last close.

Blended Valuation

Valuation type	Fair value	Weights	Weighted Fair Value
DCF - Consolidated Business	102.1	50%	51.03
SOTP	119.1	50%	59.54
Retail Business	87.5		
Consumer Finance	31.6		
Target Price (SAR/share)			111.00
Current Price (SAR/share)			89.50
Expected Capital Gain			24.0%

Source: AJC research



Key Financial Table

Amount in SAR mn, unless otherwise specified	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Income statement											
Revenues	4,394	5,135	5,962	5,834	6,031	6,199	6,984	7,567	7,835	8,114	8,409
Y/Y		16.9%	16.1%	-2.2%	3.4%	2.8%	12.7%	8.3%	3.5%	3.6%	3.6%
Cost of Sales	(3,614)	(4,233)	(4,923)	(4,650)	(4,766)	(4,886)	(5,526)	(5,972)	(6,111)	(6,255)	(6,408)
Gross profit	780	901	1,039	1,184	1,265	1,313	1,459	1,595	1,724	1,858	2,001
Selling, marketing and distribution expenses	(480)	(509)	(530)	(538)	(556)	(565)	(587)	(602)	(617)	(633)	(650)
Administrative expenses	(119)	(143)	(155)	(167)	(184)	(232)	(242)	(252)	(263)	(274)	(286)
Net impairment losses on financial expenses	-	-	(5)	(25)	(41)	(53)	(59)	(75)	(77)	(74)	(83)
Other expenses	(2)	(3)	(26)	(5)	(4)	(13)	(1)	(1)	(1)	(1)	(1)
Other income	2	31	25	17	42	6	3	3	3	3	4
Operating profit	180	276	347	465	522	493	573	667	769	879	984
Y/Y		53.2%	25.8%	33.9%	12.3%	-5.6%	16.3%	16.4%	15.3%	14.2%	12.0%
Finance charges	(10)	(57)	(50)	(38)	(50)	(65)	(74)	(75)	(71)	(70)	(71)
Profit before zakat	170	219	298	427	472	428	499	592	698	808	913
Zakat	(9)	(13)	(18)	(31)	(32)	(37)	(35)	(42)	(49)	(57)	(64)
Net income	161	206	280	397	440	391	464	550	649	751	848
Y/Y		27.6%	36.2%	41.7%	10.9%	-11.2%	18.7%	18.6%	17.9%	15.8%	0.0%
EPS (SAR)	3.4	4.3	4.9	5.3	5.9	4.9	5.8	6.9	8.1	9.4	10.6
DPS (SAR)	1.8	2.3	2.0	3.1	3.9	3.3	3.8	4.5	5.5	6.3	7.5
Balance sheet											
Assets											
Cash & bank balance	211	103	185	173	147	223	279	296	328	297	306
Other current assets	1,165	1,324	1,366	1,784	1,875	2,016	2,342	2,626	2,829	3,085	3,381
Property & Equipment	457	477	452	447	495	493	509	523	529	528	526
ROU assets	-	448	399	424	451	471	476	494	514	536	556
Other non-current assets	133	282	527	820	1,002	1,260	1,500	1,755	2,028	2,353	2,734
Total Assets	1,966	2,635	2,929	3,648	3,970	4,463	5,105	5,694	6,228	6,799	7,503
Liabilities & owners' equity											
Total current liabilities	1,178	1,325	1,286	1,349	1,650	1,412	1,622	1,780	1,843	1,882	1,932
Total non-current liabilities	143	650	818	1,306	1,181	1,780	2,008	2,149	2,231	2,273	2,338
Paid -up capital	500	500	600	600	800	800	800	800	800	800	800
Statutory reserves	21	42	30	69	64	103	150	205	270	270	270
Other reserve	4	9	7	15	4	4	4	4	4	4	4
Retained earnings	141	130	213	340	327	419	576	812	1,136	1,627	2,216
Total owners' equity	646	660	826	993	1,139	1,270	1,474	1,764	2,153	2,645	3,233
Total equity & liabilities	1,966	2,635	2,929	3,648	3,970	4,463	5,105	5,694	6,228	6,799	7,503
Cashflow statement											
Operating activities	26	69	312	(17)	(68)	128	139	235	338	344	356
Investing activities	(68)	(91)	(36)	(48)	(104)	(133)	(146)	(152)	(154)	(156)	(162)
Financing activities	176	(87)	(195)	53	146	82	63	(66)	(153)	(219)	(185)
Change in cash	134	(109)	82	(12)	(26)	77	56	17	31	(31)	9
Ending cash balance	211	103	185	173	147	223	279	296	328	297	306
Key fundamental ratios											
Liquidity ratios											
Current ratio (x)	1.2	1.1	1.2	1.5	1.2	1.6	1.6	1.6	1.7	1.8	1.9
Quick ratio (x)	0.5	0.4	0.5	0.6	0.6	0.8	0.9	0.9	1.0	1.1	1.2
Profitability ratios											
GP Margin	17.7%	17.6%	17.4%	20.3%	21.0%	21.2%	20.9%	21.1%	22.0%	22.9%	23.8%
Operating Margins	4.1%	5.4%	5.8%	8.0%	8.7%	8.0%	8.2%	8.8%	9.8%	10.8%	11.7%
EBITDA Margin	5.0%	7.3%	7.6%	9.7%	10.5%	9.8%	10.0%	10.4%	11.4%	12.5%	13.4%
Net Margins	3.7%	4.0%	4.7%	6.8%	7.3%	6.3%	6.6%	7.3%	8.3%	9.3%	0.0%
Return on assets	8.2%	8.9%	10.1%	12.1%	11.6%	9.3%	9.7%	10.2%	10.9%	11.5%	11.9%
Return on equity	25.0%	31.5%	37.7%	43.6%	41.3%	32.4%	33.8%	34.0%	33.1%	31.3%	28.9%
Market/valuation ratios											
EV/sales (x)	0.5	0.6	0.7	1.6	1.2	1.5	1.3	1.3	1.2	1.2	1.2
EV/EBITDA (x)	9.8	8.2	9.7	16.2	11.3	14.9	13.4	12.1	10.7	9.5	8.6
BVPS (SAR)	13.4	13.7	14.3	12.4	14.2	15.9	18.4	22.1	26.9	33.1	40.4
Market price (SAR)*	40.0	46.8	64.9	101.6	69.1	89.5	89.5	89.5	89.5	89.5	89.5
Market-Cap (SAR mn)	1,920	2,247	3,737	8,124	5,528	7,160	7,160	7,160	7,160	7,160	7,160
Dividend yield	4.4%	5.0%	3.0%	3.0%	5.7%	3.6%	4.2%	5.0%	6.1%	7.0%	8.4%
P/E ratio (x)	11.9	10.9	13.3	19.2	11.8	18.3	15.4	13.0	11.0	9.5	8.4
P/BV ratio (x)	3.0	3.4	4.5	8.2	4.9	5.6	4.9	4.1	3.3	2.7	2.2

Source: Company financials, Aljazira Capital research





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TERMINOLOGY

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4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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