US$4.9bn	72.6%	US$6.3mn
Market Cap.	Free Float	Avg. Daily Value traded

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Jarir Marketing Co.

Rating Revised to Neutral

Neutral

Price Target (SAR): 16.0

Current: 15.2
Upside/Downside: 5.3% above current

Valuation Multiples	23E*	24E	25E
P/E (x)	19.2	17.3	16.7
EV/EBITDA (x)	15.5	14.1	13.6

Major Shareholders	% Ownership
Jarir Company for Commercial Investments	21.84

Price Performance	1M	3M	YTD
Absolute	-2.2%	6.0%	-2.4%
Relative to TASI	-2.3%	-6.6%	-4.5%

Earnings

(SARmn)	2023E*	2024E	2025E
Revenue	10,595	10,980	11,544
Revenue growth	12.8%	3.6%	5.1%
Gross profit	1,276	1,373	1,437
Gross margin	12.0%	12.5%	12.5%
EBITDA	1,228	1,309	1,352
EBITDA margin	11.6%	11.9%	11.7%
Net profit	973	1,053	1,095
Net margin	9.2%	9.6%	9.5%
EPS	0.8	0.9	0.9
DPS	0.8	0.9	0.9
Payout ratio	103.0%	99.2%	99.7%
P/E	19.2x	17.3x	16.7x
RoE	54.1%	58.4%	60.6%

Source: Company data, Al Rajhi Capital. *2023 numbers are as per Company's estimated results

We revise our rating on Jarir from Overweight to Neutral and reduce our Fair Value from SAR17/sh to SAR16/sh. Despite reporting ~6% CAGR in revenue between 2019-2023, Jarir has seen a relatively stagnant bottom line in the last 5 years as its gross margins have eroded by over 300bps during the same period. While we are cautiously optimistic about marginal improvement in gross margins, we highlight that heightened competition in the product categories in which Jarir competes for market share and gradual digitalization of the education system remain key downside risks for the stock. Currently, while the 2024 forward dividend yield of the company is 5.7%, this dividend yield is subject to the risk of further erosion of gross margins.

Modest earnings growth with potential downside risks: Despite reporting ~6% CAGR in revenue between 2019-2023, Jarir has seen a relatively stagnant bottom line in the last 5 years as its gross margins have eroded by over 300bps during the same period. This can primarily be attributed to the combined impact of 1) gradual tilt of the sales mix towards the low margin highly competitive segment of smartphones in which the company competes for market share with industry giants like STC, 2) limited exposure to relatively higher-margin segments of white goods, and 3) limited growth in the high margin legacy portfolio of stationery and office supplies.

Jarir nevertheless has a very strong brand equity built on the company's superior services (such as same-day delivery and ongoing product maintenance) due to which customers have historically been willing to pay a premium price. Furthermore, the company's management has significant experience in the product categories in which it competes. Amid these material advantages and with the expectation that the company would not witness major clearance sales (akin to what was seen in 2Q2023 that resulted in a significant drop in gross margins), we are cautiously optimistic about a marginal improvement in Jarir's gross margins.

Furthermore, commission income from 3rd party micro-finance companies and partial recovery of distribution expense (since the company has started charging its customers for delivery from 4Q2023) can be expected to modestly improve the bottom line of the company.

However, heightened competition in the product categories in which Jarir competes for market share and gradual digitalization of the education system remain key downside risks for the stock.

Risk to dividend yield: Currently, 2024 forward dividend yield of the company is 5.7%. However, it is important to highlight that the 5.7% dividend yield is on account of our cautious optimism about a marginal improvement in gross margins of the company. Hence, if gross margins in 2024 remain at the same level as seen in 2023 (that is gross margins are reduced by 50bps from our base case) then the dividend yield can be expected to decline to 5.4%.

Recommendation and Valuation:

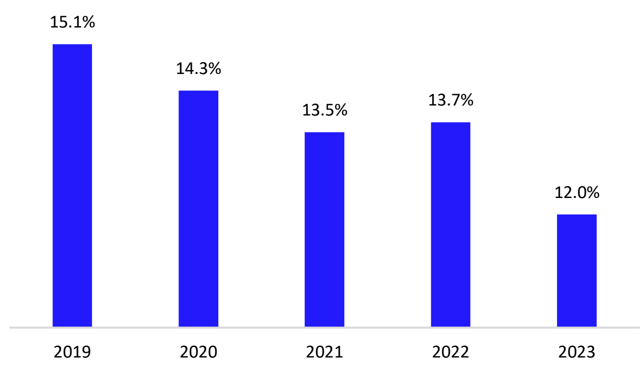
We now have a Neutral rating on the stock as the company's sales mix continues to be dominated by the highly competitive smartphone segment. We value the company using the discounted cashflow method and P/E multiple, assigning equal weight to each. For DCF valuation we value the core assets of the company (assets other than investment property) with a WACC of 8.7% and terminal growth rate of 2.5%, while valuing the investment property using the fair value provided by the company (after applying a 25% discount). Furthermore, for P/E multiple-based valuation we use a target P/E multiple of 20x which is in line with the historical average.

Figure 1 **Valuation table**

Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)	Upside/ downside
DCF Valuation	16	50.0%	8	5.1%
P/E	16	50.0%	8	7.2%
Target price			**16**	
CMP			15.2	
Upside/(Downside)			**5.3%**	
Dividend yield			5.7%	
Total returns			**11.0%**	

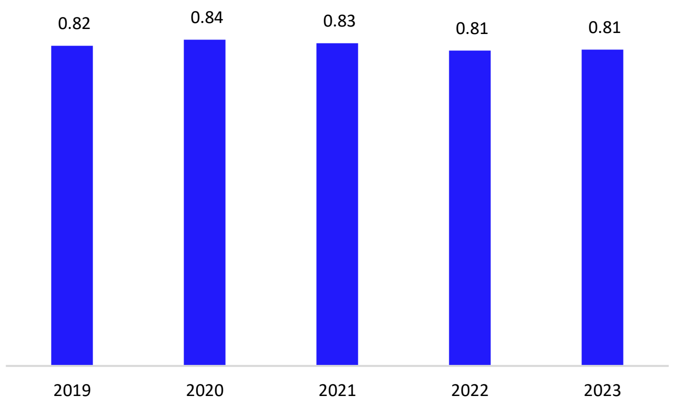
Source: Al Rajhi Capital estimates.

Figure 2 **Gradual erosion in Gross margins**



Source: Company data, Al Rajhi Capital.

Figure 3 **Stagnant Earnings (SAR/sh)**



Source: Company data, Al Rajhi Capital.

Financials

Figure 4 **Income Statement**

SAR mn	2023E*	2024E	2025E
Revenue	**10,595**	**10,980**	**11,544**
y-o-y growth	*12.8%*	*3.6%*	*5.1%*
Cost of Sales	9,319	9,607	10,107
Gross Profit	**1,276**	**1,373**	**1,437**
y-o-y growth	*-0.9%*	*7.6%*	*4.7%*
margins	*12.0%*	*12.5%*	*12.5%*
Operating Profit	**1,045**	**1,129**	**1,171**
y-o-y growth	*2.6%*	*8.0%*	*3.8%*
margins	*9.9%*	*10.3%*	*10.1%*
Net Income	**973**	**1,053**	**1,095**
y-o-y growth	*0.3%*	*8.2%*	*4.0%*
margins	*9.2%*	*9.6%*	*9.5%*
EPS	0.8	0.9	0.9

Source: Al Rajhi Capital estimates. *2023 numbers are as per Company's estimated results

Figure 6 **Ratios and Multiples**

	2023E*	2024E	2025E
RoE	54.1%	58.4%	60.6%
Debt/EBITDA (x)	0.6	0.5	0.5
P/E (x)	19.2	17.3	16.7
D/Y	5.4%	5.7%	6.0%
EV/EBITDA (x)	15.5	14.1	13.6

Source: Al Rajhi Capital estimates. *2023 numbers are as per Company's estimated results

Figure 5 **Balance Sheet**

SAR mn	2023E	2024E	2025E
Cash	376	401	413
Accounts Receivables	305	306	316
Inventory	1,479	1,481	1,523
Others	262	262	262
Current Assets	**2,422**	**2,451**	**2,515**
PPE	998	989	979
RoU Assets	542	513	488
Investment property	280	270	260
Others	22	22	22
Total Assets	**4,265**	**4,244**	**4,263**
Accounts payable	1,345	1,347	1,384
Lease	129	123	119
Others	258	258	258
Current Liability	**1,731**	**1,727**	**1,761**
Lease	549	524	506
Others	187	187	187
Total Liability	**2,468**	**2,439**	**2,455**
Share Capital	1,200	1,200	1,200
Retained Earnings	702	711	714
Reserves	(105)	(105)	(105)
Total Shareholders Equity	**1,797**	**1,805**	**1,809**

Source: Al Rajhi Capital estimates

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"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 12 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 12 month time horizon.

"Target price": We estimate target 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.

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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