Jarir Marketing Company

Retail – Industrial

JARIR AB: Saudi Arabia

27 July 2022

الراجحي المالية
Al Rajhi Capital

US$4.91bn	87%	US$12.02mn
Market cap	Free float	Avg. daily volume

Target price	162.0	6% over current
Current price	154.0	as at 26/7/2022

Existing rating

Underweight | **Neutral** | Overweight

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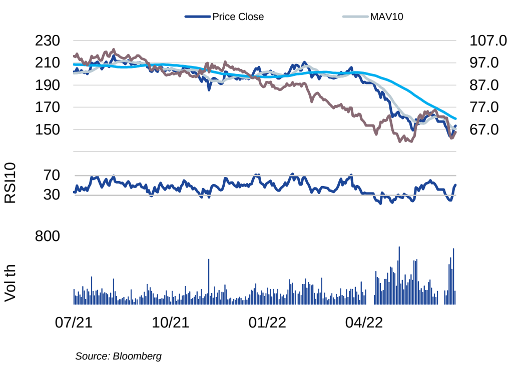
Performance



Earnings

SARmn	FY21A	FY22E	FY23E
Revenue	9,088	8,634	8,893
Revenue growth	-2.3%	-5.0%	3.0%
Gross profit	1,229	1,174	1,209
Gross margin	13.5%	13.6%	13.6%
EBITDA	1,217	1,171	1,213
EBITDA Margin	13.4%	13.6%	13.6%
Net Profit	992	930	961
Net Margin	10.9%	10.8%	10.8%
EPS	8.27	7.75	8.01
EPS Growth	-1.1%	-6.3%	3.4%
DPS	7.50	6.20	6.41
Payout Ratio	91%	80%	80%
ROE	57%	50%	47%

Source: Company data, Al Rajhi Capital

Jarir Marketing

Assign Neutral rating with Tp SAR162/sh

Jarir's Q2 2022 top-line of SAR2,011mn (-0.2% y-o-y) beat our estimates of SAR1,897mn by 6%. Whereas the bottom line came in at SAR177mn (-6% y-o-y) below our estimate of SAR194mn by 9%. The top-line growth was supported by increased spends on selling and marketing as compared to last year and the impact of such spends on the bottom line was largely mitigated by one-off gain of SAR10mn from sale of property. Though the company focused on improving sales it witnessed lower demand especially in the school section, when compared to 1Q'22 which saw full fledge resumption of study. Moreover, the intense competition in the smartphone and accessories segment (c.50% of total revenue) also resulted in discount driven sales which added pressure on margins.

We see Jarir as a company with sound business plan however in the near term there are headwinds in terms of higher inflation, supply crunch in the electronic segment and pressure on pricing due to higher competition. In terms of tailwinds the company commands a significant market share which it is likely to maintain, supported by improved macro-economic factors and post-covid normalization.

We expect the revenue in 2H 2022 to continue to stay under pressure and should be similar to the sales generated in 1H 2022 however the margins could show marginal improvement. Accordingly, we revise our tp to SAR162/sh from SAR198/sh earlier and assign a Neutral rating to the stock.

Figure 1 Jarir Q2 2022 earnings summary

(SAR mn)	2Q 2022	2Q 2021	Y-o-Y	1Q 2022	Q-o-Q	ARC est	vs ARC
Revenue	2,011	2,015	-0.2%	2,287	-12%	1,897	6%
Gross profit	249	262	-5.1%	325	-24%	266	-6%
Gross margin	12%	13%		14%		14%	
Operating profit	192	206	-7%	268	-28%	209	-8%
Operating margin	10%	10%		12%		11%	
Net profit	177	189	-6%	251	-29%	194	-9%
Net margin	9%	9%		11%		10%	

Source: Company data, Al Rajhi Capital

Valuation and Key Risks: We value Jarir using an equal weight to DCF and PE based valuation. Our DCF based target price based on 2% terminal growth and 9% WACC is SAR161/sh while the relative valuation based on 22x 2022 EPS is SAR164. Thus, the weighted tp stands at SAR162/sh which implies an 8% upside from the CMP of SAR154/sh.

Key Upside risks to our valuation include:

1) Lower competition and thus lower discounts especially in the electronic segment

2) Improving sales mix with larger contribution of high-margin products will have a positive impact on the gross margins and thus poses an upside risk to our valuation.

Key Downside risks to our valuation include:

1) Significant reduction in consumer spending compared to our expectations will have a negative pressure on the revenue and our valuation.

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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.

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