Jarir Marketing Co.

Investment Update

Rising competition, changing consumer preferences and declining high margin office & school supplies sales weighing on performance

Jarir is experiencing a rise in competition in both physical stores and e-commence segment. The company is offering more discounts and promotions to maintain market share that are pressuring margins. Consumer preferences are changing, people are spending more on HORECA and other entertainment avenues (concerts, sport events etc) and less on electronics. Moreover, the accelerated adoption of digital tools (digital note pads, smart pens, interactive white boards, cloud services and Artificial intelligence) is hurting high margin school and office supplies segment. Launch of Apple store in 2025 is expected to impact sales of smart phones segment. However, jarir's investment theses is supported by strong growth in e-commerce sales, continuous store roll outs, and superior 2025E dividend yield of 6.3% (supported by robust cash generation and debt free balance sheet). We forecast the company to post net income of SAR 993mn in FY25, up 1.9% Y/Y (2024-29E NI CAGR of 5.0%). We revise down our rating to "Neutral" on the stock with a price target of SAR 14.5/share.

Underperformed expectations in Q1-25 due to margin contraction, driven by higher selling and marketing expenses: Jarir reported net income of SAR 217mn in Q1-25, down 0.9% Y/Y and 21.1% Q/Q, respectively. The result was 7.8% and 6.5% below our and consensus estimates of SAR 235mn and SAR 232mn, respectively. The deviation is primarily attributable to lower than estimated gross margins (-58bps deviation), due to higher promotion and discounts. Revenues posted a nominal increase of 2.7% Y/Y while they were down 5.0% sequentially (-1.5% deviation). The increase in sales was driven by smart phone and aftersales services segment. Overall, average revenue per store declined by 1.5% Y/Y to SAR 36.7mn in Q1-25. Gross profit was up 2.7% Y/Y (down 14.2% Q/Q) to SAR 302.7mn, while operating profit declined by 0.8% Y/Y (-19.9% Q/Q) to SAR 235.7mn, due to 30bps contraction in operating margins. Decline in operating margins was on account of increase in selling and marketing costs. The company opened a new showroom in Jeddah, and in Jubail Industrial City, as a replacement for the showroom in Al-Huwailat district in Jubail in Q1-25.

Revenue growth slows down to low single digits; high margin Schools & office supplies segment is hurt the most (-10.3% Y/Y in 2024); weakness to continue in medium-term: The shift from traditional brick-and-mortar stores to e-commerce, and accelerated adoption of digital tools (digital note pads, smart pens, interactive white boards, cloud services and Artificial intelligence) in schools and offices has adversely impacted Jarir. Sales growth slowed down to 2.2% Y/Y in 2024. The high margin, schools and office supplies segment (10.2% of total sales) saw a 10.3% Y/Y decline in sales in 2024, while smart phones & electronics and other IT & digital products segments saw a nominal 3.7% Y/Y and 4.2% Y/Y increase in 2024, respectively. Channel wise retail outlet sales dropped by 2.4% Y/Y to SAR 7.6bn in 2024, as customers continued their move towards online purchases, where Jarir saw a healthy 25.1% Y/Y increase in revenues. Performance in online segment was boosted by the launch of new version of Jarir bookstore app. Overall, average revenue per store declined by 1.3% Y/Y to SAR 150.4mn in 2024. We expect the company to record revenue growth of 4.3/5.3% Y/Y in 2025/26, driven by store additions; per store revenue is expected to remain largely unchanged.

Margins have been pressured by intensifying competition (both in online and physical stores); promotions and discounts are likely to continue: The rising number of online platforms and increase in physical stores has resulted in heightened competition for Jarir. The company is opting for promotions, discounts and price cuts, to maintain market share, however this is pressuring margins. Gross margins have declined by 288bps to 12.2% (2024 end) over the last 5 years, while operating margins have contracted by 299bps to 9.7% (2024 end). Gross margins remained stable at 11.1% Y/Y in Q1-25, however operating margins receded by 30bps Y/Y to 8.7% in Q1-25, due to higher selling and marketing expenses, that stood at 1.8% of total sales in Q1-25 vs 1.5% in same period last year. We expect gross/operating margin to contract by 10/21bps Y/Y in 2025 to 12.1/9.5% respectively, as we selling and marketing expenses to remain elevated in the medium term.

Recommendation	**Neutral**
Target Price (SAR)	**14.5**
Upside / (Downside)*	**14.1%**

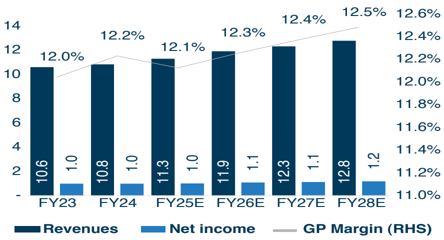
Source: Tadawul *prices as of 29th of April 2025

Key Financials

SARmn (unless specified)	FY24	FY25E	FY26E	FY27E
Revenues	10,831	11,294	11,896	12,315
Growth %	2.2%	4.3%	5.3%	3.5%
Gross profit	1,324	1,369	1,458	1,523
EBIT	1,053	1,075	1,155	1,210
Net Income	974	993	1,071	1,124
Growth %	0.1%	1.9%	7.9%	4.9%
EPS	0.81	0.83	0.89	0.94
DPS	0.80	0.80	0.80	0.90

Source: Company reports, Aljazira Capital Research

Fig 1: Profitability trend (SAR, bn)



Source: Company reports, Aljazira Capital

Key Ratios

	FY24	FY25E	FY26E	FY27E
Gross Margin	12.2%	12.1%	12.3%	12.4%
EBIT margin	9.7%	9.5%	9.7%	9.8%
Net Margin	9.0%	8.8%	9.0%	9.1%
P/E (x)	15.65	15.31	14.18	13.52
P/B (x)	8.8	8.5	8.2	8.0
EV/EBITDA (x)	13.1	12.6	11.7	11.1
Dividend Yield	6.3%	6.3%	6.3%	7.1%

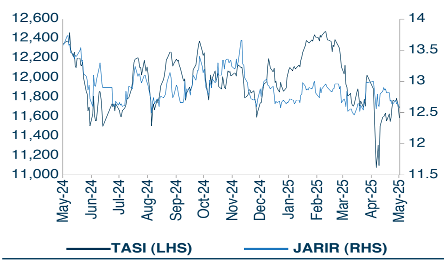
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	15.1
YTD%	-0.32%
52 weeks (High)/(Low)	13.8/12.3
Share Outstanding (mn)	1200.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Company reports, Aljazira Capital Research

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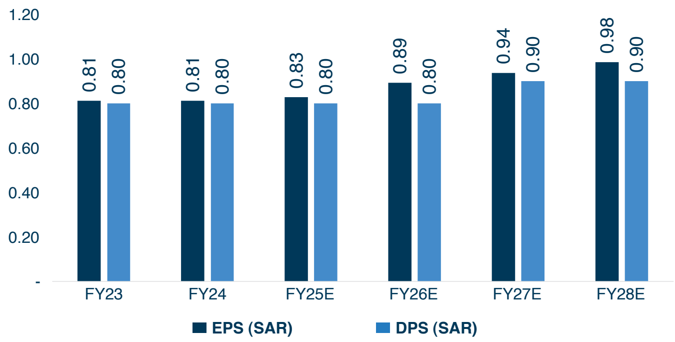
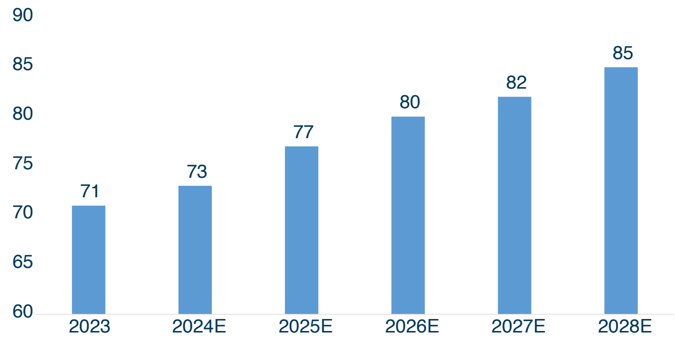
Fig 2: EPS and DPS



Source: Company reports, AlJazira Capital

Fig 3: No.of stores



Source: Company reports, AlJazira Capital

Changing consumer trends and planned launch of Apple stores are key medium term headwinds; venture into consumer finance can be a long term trigger: We highlight change in consumer spending preferences and planned launch of Apple store as key headwinds for Jarir in the medium term. Consumers are spending more on HORECA and other entertainment avenues (concerts, sport events) and less on electronics. According to latest data released by SAMA, POS sales for restaurant & cafés, Beverage & food and clothing & footwear have increased by 6.0/5.0/7.2% Y/Y over the trailing 12 months, respectively, while sales of electronic devices have declined by 13.5% Y/Y over the same period. We see this trend to carry on as kingdom invests heavily in new sports and entertainment events in line with Vision 2030. Apple is set to launch its online store in the kingdom in 2025 and physical store in 2026, this would be negative as Apple products constitute 25-30% of company's sales, however, margins on the aforementioned are quite thin. On the flipside, jarir signed a non-binding memorandum of understanding (MoU) with Aman Non-Bank Financial Services and Electronic Payments Co. (Egypt) to establish a consumer finance company, with an initial capital of SAR 100mn. The aforementioned can act as a positive trigger for the stock, however, we await more details before incorporating it in our working.

Revenue and earnings growth to remain muted in the medium term: The double digit increase in sales seen in 2023, which was driven by Buy Now Pay Later (BNPL), could not carry on in 2024 where revenue growth slowed down to 2.2% Y/Y. In the backdrop of increasing competition and changing consumer preferences we forecast revenues to grow at a medium term CAGR of 4.2% over 2024-28. Increase in sales will be driven by store expansions (we expect store count to reach 87 by 2029) and stronger e-commerce sales (boosted by personalization of user experience and upgradation of core e-commerce systems). Moreover, we forecast the company to post net income of SAR 993/1,071mn in FY25/26 (up 1.9/7.9% Y/Y). We estimate net income to grow at a five year CAGR of 5.0%, and gross and operating margins to improve 45/42bps and reach 12.7% and 10.1% respectively by 2029 (from 12.2% and 9.7% in 2024).

One of the strongest dividend yield in TASI, which is backed by robust debt free cashflow, debt free balance sheet and low capex needs: Jarir has a debt free balance sheet, low capital intensive business (capex averaged at SAR 0.05/sh in last 5 years) and robust free cash flow generation (2024 operating cash flow SAR 0.93/sh). The aforementioned enable the company to offer one of the highest payouts (last 5 years payout ratio 97%) and dividend yields in TASI (last 5 year average yield is 5.1%). We estimate 2025/26E DY of 6.3/6.3% respectively, as a key factor that limits downside risk for the stock price.

Investment thesis: Jarir is expected to continue to be adversely impacted by (1) change in consumer preferences towards HORECA and other entertainment avenues, (2) rising number of physical and online stores that are intensifying competition, (3) launch of Apple stores – Apple products constitute 25-20% of sales. In this back drop we see revenue and bottom-line growth to remain in low single digits and margins to undergo a nominal expansion in the medium term. New store launches, strong dividend yield of 6.3% and plans to enter into consumer finance business are key positive triggers for the company.

Valuation: We value Jarir assigning 50% weight to DCF (2.5% terminal growth and 9.3% WACC), while we assign 50% weight to PE (17.0x based on FY25E EPS). We revise our recommendation to "**Neutral**" on Jarir, with a revised down TP of **SAR 14.5/share**.

Valuation Summary	Fair value	Weights	Weighted Fair Value
DCF	14.9	50%	7.5
P/E	14.1	50%	7.0
Recommended Target Price (SAR/share)			**14.5**
Expected Capital Gain			**14.1%**

Source: Company's report, AlJazira Capital Research, price as of 29th April 2025

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Income statement							
Revenues	10,595	10,831	11,294	11,896	12,315	12,777	13,204
Y/Y	**12.8%**	**2.2%**	**4.3%**	**5.3%**	**3.5%**	**3.8%**	**3.3%**
Cost of Sales	(9,319)	(9,506)	(9,924)	(10,439)	(10,791)	(11,182)	(11,530)
Gross profit	**1,276**	**1,324**	**1,369**	**1,458**	**1,523**	**1,595**	**1,674**
GPM	**12.0%**	**12.2%**	**12.1%**	**12.3%**	**12.4%**	**12.5%**	**12.7%**
General and Administrative exp	(136)	(144)	(149)	(151)	(157)	(163)	(168)
Selling and marketing expenses	(167)	(203)	(215)	(225)	(232)	(241)	(249)
Other income	73	76	70	74	76	79	82
Operating profit	**1,045**	**1,053**	**1,075**	**1,155**	**1,210**	**1,270**	**1,339**
OPM	**9.9%**	**9.7%**	**9.5%**	**9.7%**	**9.8%**	**9.9%**	**10.1%**
Financial charges	(43)	(48)	(53)	(53)	(53)	(54)	(56)
Profit before zakat	**1,002**	**1,005**	**1,022**	**1,103**	**1,157**	**1,216**	**1,283**
Zakat	(29)	(31)	(29)	(32)	(33)	(35)	(37)
Net income	**973**	**974**	**993**	**1,071**	**1,124**	**1,181**	**1,246**
Y/Y	**0.3%**	**0.1%**	**1.9%**	**7.9%**	**4.9%**	**5.1%**	**5.5%**
EPS (SAR)	**0.81**	**0.81**	**0.83**	**0.89**	**0.94**	**0.98**	**1.04**
DPS (SAR)	**0.80**	**0.80**	**0.80**	**0.80**	**0.90**	**0.90**	**1.00**
Balance sheet							
Assets							
Cash & bank balance	50	33	29	27	63	105	91
Other current assets	2,161	2,316	2,367	2,491	2,576	2,670	2,754
Property & Equipment	995	995	1,009	1,024	1,039	1,054	1,069
Other non-current assets	905	929	915	918	911	891	855
Total assets	**4,110**	**4,273**	**4,321**	**4,459**	**4,588**	**4,720**	**4,770**
Liabilities & owners' equity							
Total current liabilities	1,572	1,736	1,736	1,815	1,878	1,937	1,909
Total non-current liabilities	767	792	790	795	805	819	834
Paid -up capital	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Retained earnings	677	657	686	722	746	777	816
Total owners' equity	1,772	1,745	1,795	1,849	1,905	1,964	2,026
Total equity & liabilities	**4,110**	**4,273**	**4,321**	**4,459**	**4,588**	**4,720**	**4,770**
Cashflow statement							
Operating activities	689	1,114	1,140	1,221	1,306	1,379	1,468
Investing activities	(65)	(63)	(68)	(71)	(74)	(77)	(79)
Financing activities	(1,098)	(1,069)	(1,075)	(1,153)	(1,196)	(1,260)	(1,403)
Change in cash	(474)	(18)	(4)	(3)	36	42	(14)
Ending cash balance	**50**	**33**	**29**	**27**	**63**	**105**	**91**
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	1.4	1.4	1.4	1.4	1.4	1.4	1.5
Quick ratio (x)	0.4	0.3	0.3	0.3	0.3	0.4	0.4
Profitability ratios							
GP Margin	12.0%	12.2%	12.1%	12.3%	12.4%	12.5%	12.7%
Operating Margins	9.9%	9.7%	9.5%	9.7%	9.8%	9.9%	10.1%
EBITDA margin	11.6%	11.4%	11.2%	11.4%	11.7%	11.9%	12.2%
Net Margins	9.2%	9.0%	8.8%	9.0%	9.1%	9.2%	9.4%
Return on assets	23.3%	23.2%	23.1%	24.4%	24.8%	25.4%	26.3%
Return on equity	54.0%	56.9%	55.6%	58.8%	59.8%	61.0%	61.8%
Market/valuation ratios							
EV/sales (x)	1.8	1.5	1.4	1.3	1.3	1.2	1.2
EV/EBITDA (x)	15.8	13.1	12.6	11.7	11.1	10.5	9.9
EPS (SAR)	0.8	0.8	0.8	0.9	0.9	1.0	1.0
BVPS (SAR)	1.5	1.5	1.5	1.5	1.6	1.6	1.7
Market price (SAR)*	15.6	12.7	12.7	12.7	12.7	12.7	12.7
Market-Cap (SAR mn)	18,696.0	15,432.0	15,192.0	15,192.0	15,192.0	15,192.0	15,192.0
Dividend yield	5.3%	6.5%	6.2%	6.7%	7.0%	7.4%	7.8%
P/E ratio (x)	19.2	15.8	15.3	14.2	13.5	12.9	12.2
P/BV ratio (x)	10.6	8.8	8.5	8.2	8.0	7.7	7.5

Source: Company reports, AlJazira Capital Research

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RESEARCH DIVISION

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1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
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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