Jarir Marketing company

Retail – Industrial
JARIR AB: Saudi Arabia
21 August 2023

US$4.83bn	72.58%	US$11.8mn
Market Cap	Free Float	Avg. Daily Volume

Target price	17.00	12.5% above current
Current price	15.10	as at 20/08/2023

Existing rating

Underweight | Neutral | **Overweight**

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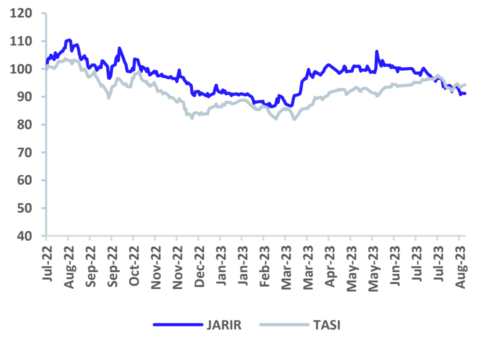
Performance (Rebased to 100)



Earnings

SARmn	FY22	FY23E	FY24E
Revenue	9,392	10,550	11,092
Revenue growth	3.3%	12.3%	5.1%
Gross profit	1,287	1,262	1,340
Gross margin	13.7%	12.0%	12.1%
EBITDA	1,186	1,155	1,232
EBITDA Margin	12.6%	10.9%	11.1%
Net Profit	970	914	983
Net Margin	10.3%	8.7%	8.9%
EPS	0.81	0.76	0.82
EPS Growth	-2.2%	-5.7%	7.5%
DPS	0.80	0.80	0.86
Payout Ratio	98.4%	105.0%	105.0%
ROE	54.3%	51.4%	56.8%
P/E	18.56	19.69	18.32
P/S	1.92	1.71	1.62
EV/EBITDA	15.6	16.0	15.0

Source: Company data, Al Rajhi Capital.

Jarir

Attractive dividend yield with limited downside. We revise our target price to SAR17/sh and change rating to overweight.

Jarir reported below expectations numbers in 2Q23 as competition pressure is impacting the company. Sales in 2Q23 grew by 21.2% supported by higher sales of almost all sections, especially smartphones and related accessories, computers and video games sections. Despite the strong sales growth, gross profit declined by 3.6% to SAR239.6mn vs last year SAR248.6mn and gross margins were 9.8% vs 12.4% last year. the decline came from higher sales throught weak margin channels, higher discounts, and the change in product mix towards less profatible segments. Operating expenses were under control despite opening a new showroom. SG&A dropped by 2.4% y-o-y. Net income for the period came at SAR156mn vs SAR177mn last year. That being said, we revise our target price for Jarir from SAR17.3/sh to SAR17.0/sh while the current market price is SAR15.1/sh (12.5% higher).

Figure 1: 2Q23 earnings (SAR mn)

(SAR mn)	2Q 2023	2Q 2022	*Y-o-Y*	1Q 2023	*Q-o-Q*	ARC est	*vs ARC*
Revenue	2,436	2,011	21.1%	2,718	-10.38%	2,253	8.1%
Gross profit	240	249	*-3.6%*	324	-25.93%	246	*-2.6%*
Gross margin	9.9%	12.4%		11.9%		10.9%	
Operating profit	175	192	*-8.90%*	265	-34.0%	183	*-4.5%*
Operating margin	7.2%	9.5%		9.7%		8.1%	
Net profit	156	177	*-12.10%*	248	-37.1%	168	*-7.3%*
Net margin	6.4%	8.8%		9.1%		7.5%	

Source: Company data, Al Rajhi Capital

Outlook: Jarir witnessed some significant changes in consumer behavior, as did many retailers. In the first half, Jarir sales from the e-commerce platform climbed to SAR1.1bn vs SAR346mn last year. Although the growth was attractive, the margin Jarir made from the e-commerce was weaker than store margins. We believe the majority of the e-commerce sales were down using the (buy now, pay later) which further squeezed the margins. That explains why despite a solid revenue growth, gross profit dropped by 3.6%. When it comes to store expansions, we expect the company to hold on to its plans of opening 4 to 5 stores annually (2 new stores YTD) which will help in boosting sales. We expect the company to grow sales by 4 to 5% in the coming few years.

Dividend: We believe Jarir can maintain the level of dividend for the year 2023 as the company enjoys healthy cashflow. The company made an average of SAR1.2bn over the past four years and spent an average of SAR70mn on capex. While lease payment stood at SAR150mn last year which leaves Jarir with SAR980mn FCF. Currently, Jarir trades at 5.3% dividend yield which is attractive in our opinon given that majority of the negatively is already priced in.

Valuations: We arrived at our 12m forward-looking target price for the company using an equal mix of DCF and P/E. The DCF target price is based on a 2.5% terminal growth and a WACC of 8.6% reaching to a target price of SAR18/share. The P/E is based on 20x and FY 2023E earnings gives a TP of SAR16/share. The overall value come to SAR17/sh. Based on our TP, we change our rating to from neutral to overweight. Upside risks to our valuations are, better than expected improvement in gross margin, lower than expected capex spending, higher sales growth than anticipated, lower lending growth than anticipated.

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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.

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