Jarir Marketing Company

Retail – Industrial
JARIR AB: Saudi Arabia
20 October 2022

الراجحي المالية
Al Rajhi Capital

US$5.12bn	67%	US$7.69mn
Market cap	Free float	Avg. daily volume

Target price	170.0	3.0% over current
Current price	165.0	as at 19/10/2022

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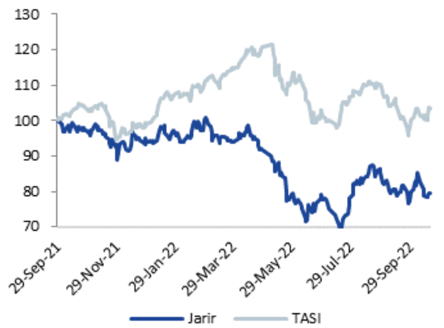
Existing rating

Underweight	**Neutral**	Overweight

Performance



Earnings

SARmn	FY21	FY22E	FY23E
Revenue	9,088	9,051	9,403
Revenue growth	-2.3%	-0.4%	3.9%
Gross profit	1,229	1,252	1,295
Gross margin	13.5%	13.8%	13.8%
EBITDA	1,217	1,228	1,272
EBITDA Margin	13.4%	13.6%	13.5%
Net Profit	992	1,001	1,040
Net Margin	10.9%	11.1%	11.1%
EPS	8.27	8.34	8.66
EPS Growth	-1.1%	0.9%	3.9%
DPS	7.50	7.51	7.80
Payout Ratio	90.7%	90.0%	90.0%
ROE	56.8%	55.0%	54.1%
P/E	19.96	19.79	19.04
P/S	2.18	2.19	2.11
EV/EBITDA	16.6	16.5	15.9

Source: Company data, Al Rajhi Capital

Jarir Marketing

Competition pressure, remain neutral with a TP of 170

3Q Performance:

Jarir's 3Q bottom-line of SAR273mn came in line with our estimates, as we were expecting the company to register similar levels of earnings, relative to last year. The top-line, at SAR2,517mn was better than our estimate of SAR2,247mn (+12% deviation) and was supported by return to school activities and higher advertisement spending. Operating expenses witnessed a sharp increase of around SAR30mn y-o-y and SAR24mn q-o-q, which was largely due to the intense competition, which led the company to spend more in maintaining its market share and to sustain earnings. Furthermore, the competition in smartphones is getting more intense with margins getting thinner. The gross margin in 3Q dropped 68bps due to higher promotions in the back-to-school season. Finally, we believe the results were in the acceptable range, despite the majority of the growth in the gross profit being offset by other costs.

Figure 1: Jarir Q3 2022 earnings summary

(SAR mn)	3Q 2022	3Q 2021	Y-o-Y	2Q 2022	Q-o-Q	ARC est	vs ARC
Revenue	2,517	2,225	*13%*	2,011	*25%*	2,247	*12%*
Gross profit	372	344	*8%*	249	*50%*	342	*9%*
Gross margin	15%	15%		12%		15%	
Operating prof	291	293	*0%*	192	*52%*	293	*0%*
Operating mar	12%	13%		10%		13%	
Net profit	274	273	*0%*	177	*54%*	273	*0%*
Net margin	11%	12%		9%		12%	

Source: Company data, Al Rajhi Capital.

Jarir's Outlook:

Jarir faces various challenges in the form of rising competition, changes in consumer spending, changing Saudi behaviour and the Riyadh season. Post-pandemic, we believe the behaviour of consumers has changed. Growth in e-commerce and changes in consumer spending has made the industry landscape more challenging for Jarir. In 2019, visitors to Jarir stores were around 40mn customers. In 2020 and 2021, this number has fallen to around 36.5mn. Jarir is facing pressure in attracting customers back to its stores. Another important factor is consumer financing, which has started to gain wide acceptance from consumers.

Growth drivers:

We believe future growth for Jarir will come from one of the followings.

1) *Growth from new stores as the company plans to open 4 to 5 stores annually (3 to 5% growth based on our assumptions)*
2) *Growth in the E-commerce sales. Currently, Jarir sales from e-commerce is around 8% where some countries recorded 17% and 23% sales from e-commerce.*
3) *Growth form new category or new product offerings.*

We continue to remain positive on Jarir and expect its profitability to remain stable. As a result, we have revised our target price from SAR163/sh to SAR170/sh as compared to the current market price of SAR165/sh

Valuation:

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 SAR169/sh, while the relative valuation based on 21x 2022 EPS is SAR171. Thus, the weighted tp stands at SAR170/sh which implies 3% upside from the CMP of SAR165/sh.

Key Risks:

Key upside risks to our valuation includes, Lower competition and thus lower discounts, especially in the electronic segment, Improving sales mix with larger contribution of high-margin products. Key downside risks, lower stores expansions than expected, slower growth in e-commerce, higher competition.

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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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