

JARIR MARKETING CO.

الأهلي كابيتال
NCB Capital

EVENT FLASH

Record high 4Q profits driven by strong revenue growth

Jarir reported an in-line set of 4Q16 results, with record high 4Q net income of SR215.3mn (+3.5% YoY). Higher than expected sale of the low-margin electronic products supported top-line growth. However this led to margin pressures across all profit lines, offsetting the top-line growth. Lower Opex is a key positive from the results and supported earnings growth. Jarir currently trades at a 2017E P/E of 14.5x vs. 17.7x for the covered Retail peers.

- **NCBC view on the results:** Jarir reported an in-line set of 4Q16 results, with a record high 4Q net profit of SR215.3 mn (+3.5% YoY). This compares to the NCBC and consensus estimates of SR209mn and SR203mn, respectively. We believe higher sales of low-margin electronic products, specifically iPhone 7, led to the strong revenue growth. However this led to a 234bps YoY contraction in gross margins. Positive from the results was a significant decline in operating expenses. However, Opex efficiencies were partially offset by lower rental income and higher zakat expense.
- Jarir's sales increased 17.7% YoY to SR1,794mn in 4Q16, significantly higher than the NCBC estimates of SR1,531mn. This is the highest 4Q revenue on record. We believe the deviation from our estimates is mainly due to a better than expected sale of electronics, which can be mainly attributed to the launch of iPhone 7 in 4Q16. Moreover, the opening of five new stores and LFL growth of c. 5% supported the overall revenue growth.
- Gross margins contracted 234bps YoY to 13.6%. This compares to our estimates of 16.2%. We believe the deviation came mainly from a change in sales mix towards the low-margin electronics. Therefore, despite the strong revenue growth, the 234bps contraction in gross margins YoY led gross profit to remain flat at SR244.8mn. This is in-line with our estimate of SR248.2mn.
- Opex declined 24.3% YoY to SR34.7mn vs. our estimates of SR50.0mn. We believe lower selling and distributing expenses, namely marketing expenses, negated the impact of higher costs of new store openings. Total store count stood at 45 in 4Q16 vs. 40 in 4Q15. As a result of this, EBIT grew 6.2% YoY to SR210.1mn. However, growth at the net income level was limited to 3.5% YoY to SR215.3 due to lower rental income and higher zakat expenses.
- We remain Overweight on Jarir, with a PT of SR142.6. Jarir has an attractive dividend yield of 5.7% for 2017E, among the highest in the sector. However, we believe the full impact of the allowance cuts on the spending power will be experienced in 1Q17. Therefore, we are cautious and expect a decline of -8.0% in LFL for Jarir in 2017E. Jarir trades at a 2017E P/E of 14.5x vs. covered Retails peers at 17.7x.

4Q16 Results Summary

SR mn	4Q16A	4Q15A	% YoY	4Q16E	% Var^
Sales	1,794	1,524	17.7	1,531	17.2
Gross income	244.8	243.7	0.4	248.2	(1.4)
Operating income	210.1	197.9	6.2	198.2	6.0
Net income	215.3	208.1	3.5	208.8	3.1
EPS (SR)	2.39	2.31	3.5	2.32	3.1

Source: Company, NCBC Research ^ % Var indicates variance from NCBC forecasts

OVERWEIGHT

Target price (SR) 142.6

Current price (SR) 118.4

STOCK DETAILS

M52-week range H/L (SR)	141/82
Market cap (\$mn)	2,846
Shares outstanding (mn)	90
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(2.7)	44.4	(16.2)
Rel. to market	(3.0)	17.6	(30.8)

Avg daily turnover (mn)	SR	US\$
3M	18.2	4.9
12M	16.3	4.4

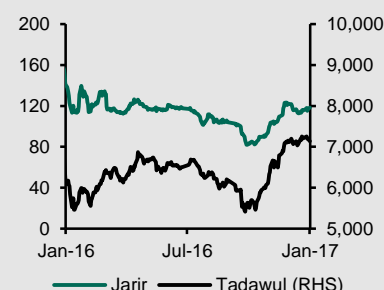
Reuters code	4190.SE
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VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	12.9	14.7	14.5
P/B (x)	7.1	6.5	6.1
EV/EBITDA (x)	12.5	14.5	14.1
Div Yield (%)	6.4	5.6	5.7

Source: NCBC Research estimates.

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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