Jarir Marketing Company

Retail – Industrial

JARIR AB: Saudi Arabia

13 July 2017

الراجحي المالية
Al Rajhi Capital

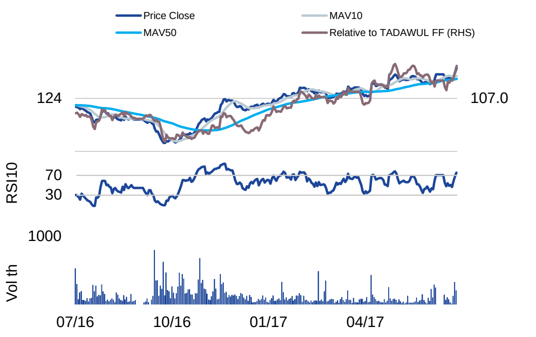
US$3.660bn	87%	US$2.822mn
Market cap	Free float	Avg. daily volume

Target price	**145.0**	-4.9% over current
Current price	**152.5**	as at 12/7/2017

Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

Perios End (SAR)	12/15A	12/16A	12/17E	12/18E
Revenue (mn)	6,375	6,123	6,897	7,676
Revenue growth	11.9%	-4.0%	12.6%	11.3%
EBITDA (mn)	833	748	836	924
EBITDA growth	10.0%	-10.3%	11.8%	10.6%
EPS	9.2	8.2	9.2	10.2
EPS growth	11.1%	-10.9%	11.6%	10.9%

Source: Company data, Al Rajhi Capital

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Jarir

Q2: Higher opex weighs on earnings

Higher SG&A expenses weighed on an otherwise healthy quarter for Jarir. Net income at SAR141mn (adjusted for SAR7.4mn one-off in Q2 i.e. insurance compensation) was lower than our estimate of SAR170mn, primarily due to SG&A expenses coming SAR23mn higher than our estimate (SAR59.5mn reported vs. our estimate of SAR36.2mn). Revenue at SAR1.58bn (up 14% y-o-y) was lower than our estimate of SAR1.64bn (+18% y-o-y), but still represents a healthy run rate in the current environment, backed by market share gains in its mobiles/ electronics segment. We believe this segment will continue to post healthy growth in the next few quarters, both due to aggressive stores roll-outs by Jarir (we build for 6 store roll-outs in 2017 and 5 in 2018) and also due weaker players exiting the business and ceding market share to large organized players like Jarir and Extra. The reinstatement of allowances in April 2017 is expected to boost the discretionary spends of consumers going forward. We made marginal adjustments to our estimates and the revised target price stands at SAR145.0 per share (earlier SAR145.8 per share). Our target price implies 4.9% downside from the current market price and we remain Neutral on the stock.

- **Revenue:** Revenue at SAR1.58bn (up 14% y-o-y) was lower than our estimate of SAR1.64bn (+18% y-o-y). We had built for +4% y-o-y LFL growth, however the reported revenue suggests flattish LFL sales for Jarir. This is in contrast to Extra, which recorded significant LFL growth at +13% y-o-y in Q2. However, we note that Extra's operating profile has witnessed significant improvement as it was coming off a low base, while that of Jarir has been consistently robust over the years.

- **SG&A expenses:** SG&A expenses at SAR59.5mn surprised negatively, coming much ahead of our estimate of SAR36.2mn. We will seek clarity on what drove the same and its sustainability.

- **Valuation & rating:** We continue to value Jarir based on equal weights for DCF and P/E based relative valuation. Our DCF based target price is SAR137.7 per share, assuming 10.46% WACC (no debt in capital structure) and 3% terminal growth. Our target P/E for Jarir is 15x FY18 earnings, despite high RoE (average 55% over FY17-20e, primarily led by 85%+ dividend pay-out), due to lower earnings CAGR i.e. 12% over FY17-20e. Our P/E based target price stands at SAR152.3. The equal weighted target price stands at SAR145.0 per share (earlier SAR145.8), implying 4.9% downside from the current price. We remain Neutral on Jarir.

Figure 1 Jarir: Summary of Q2 2017 results

(SAR mn)	Q2 2016	Q1 2017	Q2 2017	% chg y-o-y	% chg q-o-q	ARC est
Revenue	1,391	1,705	1,585	14.0%	-7.0%	1,647
Gross profit	162.8	247.4	192.7	18.4%	-22.1%	201.7
Gross profit margin	11.7%	14.5%	12.2%			12.3%
Operating profit	116.1	212.9	133.2	14.7%	-37.4%	165.5
Net profit	128.6	221.4	147.8	15.0%	-33.3%	170.0

Source: Company data, Al Rajhi Capital

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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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