Jarir Marketing Company

Retail – Industrial
JARIR AB: Saudi Arabia
09 January 2017

الراجحي المالية
Al Rajhi Capital

US$2.841bn	87%	US$5.80mn
Market cap	Free float	Avg. daily volume

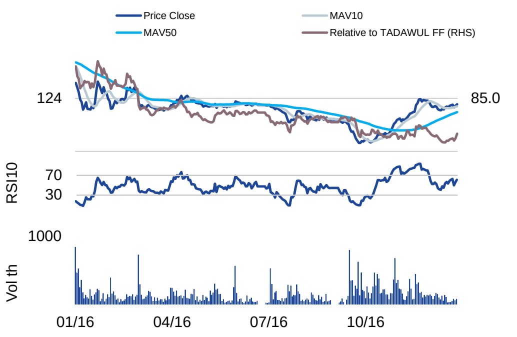
Target price	110.8	-6.5% over current
Current price	118.4	as at 8/1/2017

Existing rating

Underweight	**Neutral**	Overweight

Senior Research Analyst
Nivedan Reddy Patlolla, CFA
Tel +966 11 211 9423, patlollan@alrajhi-capital.com

Performance



Source: Bloomberg

Earnings

Perios End (SAR)	12/14A	12/15A	12/16A	12/17E
Revenue (mn)	5,699	6,375	6,123	6,141
Revenue growth	8.7%	11.9%	-4.0%	0.3%
EBITDA (mn)	758	833	751	756
EBITDA growth	13.3%	10.0%	-9.8%	0.6%
EPS	8.3	9.2	8.2	8.1
EPS growth	14.1%	11.1%	-10.9%	-1.0%

Source: Company data, Al Rajhi Capital

Jarir Marketing
Q4: Revenue growth surprises

Jarir's Q4 revenue growth at 17.7% y-o-y was much ahead of our flattish estimate, driven by higher sales of electronics, mainly smartphones according to the company's announcement. iPhone 7 sales in the Kingdom commenced in Q4 and is likely to have played a major role in driving smartphone sales. The strong revenue growth implies LFL (like for like) growth of old stores at 8-9% y-o-y, the best performance over the last 7 quarters. High revenue growth and lower gross margin (13.6%, 220 bps lower than our estimate) implies skewed sales growth towards electronics and likely higher discounts than usual. Despite the beat on revenue, gross profit was mostly in-line with our estimates. However, operating profit/ net profit were approx. 11%/8% above our estimate, led by another surprise this quarter i.e. low SG&A expenses, which stood at just 1.9% of revenue, the lowest level over the last 16 quarters. Pending discussion with the management, we maintain our estimates and target price for now, which stands at SAR110.8 per share. Maintain Neutral rating.

- **Revenue:** Revenue at SAR1,793mn grew 17.7% y-o-y, much higher than our flattish estimate. Even as the revenue growth surprised in Q4, we prefer to remain cautious on consumer spending this year given the full impact of cut in allowances of public sector employees (only one-month impact in Q4 2016), and potential impact on disposable incomes from another round of energy/ utility price hikes in 2nd half of 2017.

- **Net profit:** Net profit at SAR215.3mn was higher than our estimate of SAR198.7mn primarily due to lower than estimated SG&A expenses. Lower opex is surprising given that Q4 traditionally had the highest SG&A expenses (as % of revenue) over the last few years. In 2015, approx. 90% of SG&A expenses were employee costs (60%) and advertising (28%) expenses. Since the number of stores have been expanding (Jarir added 5 stores in 2016), employee costs should have ideally trended higher. Hence lower SG&A expenses could likely mean deferred/ lower year-end employee benefits or material cut in advertising and promotion expenses.

- **Valuation:** Pending discussion with the management, we maintain our estimates and target price for now, which stands at SAR110.8 per share. Our target price implies 6.5% downside from the current level, and we maintain our Neutral rating.

Figure 1 Jarir: Summary of Q4 2016 results

(SAR mn)	Q4 2015	Q3 2016	Q4 2016	% chg y-o-y	% chg q-o-q	ARC est
Revenue	1,524	1,521	1,794	17.7%	17.9%	1,505.6
Gross profit	243.7	252.7	244.8	0.4%	-3.1%	237.1
Gross profit margin	16.0%	16.6%	13.6%			15.8%
Operating profit	197.9	214.9	210.1	6.2%	-2.2%	189.0
Net profit	208.1	220.0	215.3	3.5%	-2.1%	198.7

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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Contact us

Jithesh Gopi, CFA
Head of Research and Financial Institutions
Tel : +966 1 211 9332
Email: gopij@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

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