



EVENT FLASH

Revenue growth offsets weaker than expected margins

Jarir reported an in-line set of 2Q17 results, with net income increasing +16.8% YoY to SR147.8mn. This compares with the NCBC estimates of SR152.5mn. The better than expected sales due to increased market share and positive LFL was offset by the contraction on margins due to a shift in overall product mix towards low-margin electronic products, leading to the inline results. Jarir is currently trading at a 2017E P/E of 16.5x vs the sector P/E of 19.3x, with an attractive dividend yield of 5.0%.

- NCBC view on the results:** Jarir reported an in-line set of 2Q17 results, with net income increasing +16.8% YoY (-33.3% QoQ) to SR147.8mn. This compares with the NCBC and consensus estimates of SR152.5mn and SR144.8mn, respectively. We believe the better than expected sales were driven by positive LFL from reinstated allowances and strong sales of smartphones. However, this was offset by contracting margins due to an overall shift in product mix towards low-margin electronic products and increased marketing expenses, leading to the in-line results.
- Sales increased 14.0% YoY to SR1,585mn in 2Q17, coming higher than the NCBC estimates of SR1,460mn. We believe this growth is supported by 1) increased discretionary spending following the reinstatement of allowances in April 2017, 2) increased market share, 3) positive LFL of c. +2% and opening of five new stores and 4) increased smartphone sales from the launch of iPhone 7 Red in March 2017.
- Gross margins expanded 45bps YoY to 12.2%, which we believe is mainly due to the increasing demand of relatively higher margin LG, Huawei and HTC smartphones vs Apple and Samsung. However, this is lower than our estimates of 13.3% due to the change in sales mix towards the low-margin electronics from the high-margin stationery products. Opex increased +27.7% YoY to SR59.5mn vs. our estimates of SR52.6mn. We believe this was due to the higher costs associated with the five new store openings as well as increased marketing expenses to support the top-line growth. Total store count stood at 47 in 2Q17 vs. 42 in 2Q16.
- We remain Overweight on Jarir, with a PT of SR168.3. The reinstated allowances along with new store openings and positive LFL are key drivers for future growth. Jarir trades at an attractive P/E of 16.5x for 2017E vs the sector P/E of 19.3x, with a dividend yield of 5.0%.

2Q17 Results Summary

SR mn	2Q17A	2Q16A	YoY	2Q17E	Var [^]	% QoQ
Revenues	1,585	1,391	14.0%	1,460	8.5%	(7.0)
Gross income	192.7	162.8	18.4%	194.2	(0.8)%	(22.1)
Gross margin (%)	12.2%	11.7%	45 bps	13.3%	(114) bps	(235) bps
EBIT	133.2	116.2	14.6%	141.6	(6.0)%	(37.4)
EBIT Margin (%)	8.4%	8.4%	5 bps	9.7%	(130) bps	(408) bps
Net income	147.8	126.5	16.8%	152.5	(3.1)%	(33.3)
Net Margin (%)	9.3%	9.1%	23 bps	10.4%	(111) bps	(366) bps
EPS (SR)	1.64	1.41	16.8%	1.69	(3.1)%	(33.3)

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

OVERWEIGHT

Target price (SR) 168.3

Current price (SR) 152.5

Upside/Downside (%) 10.4

STOCK DETAILS

M52-week range H/L (SR)	153/82
Market cap (\$mn)	3,665
Shares outstanding (mn)	90
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	9.7	15.9	29.3
Rel. to market	2.6	13.0	19.0

Avg daily turnover (mn)	SR	US\$
3M	11.5	3.1
12M	13.8	3.7

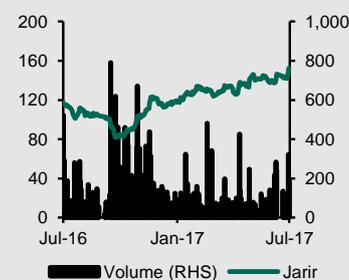
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VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	18.7	16.5	15.0
P/B (x)	9.1	8.3	7.6
EV/EBITDA (x)	18.0	15.7	13.9
Div Yield (%)	4.7	5.0	5.5

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

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