

Rating **Neutral**  
12- Month Target Price **SAR 106.00**

**JARIR MARKETING COMPANY (JARIR)**  
4Q2016 First Look

**Expected Total Return**

|                          |            |
|--------------------------|------------|
| Price as on Jan-09, 2017 | SAR 119.00 |
| Upside to Target Price   | -10.9%     |
| Expected Dividend Yield  | 6.0%       |
| Expected Total Return    | -4.9%      |

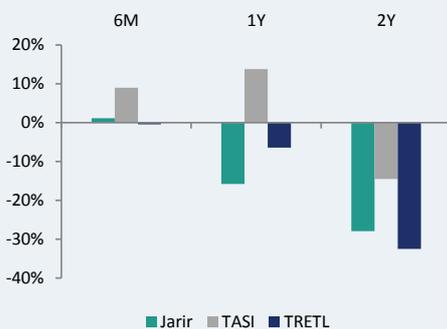
**Market Data**

|                       |                 |
|-----------------------|-----------------|
| 52 Week H/L           | SAR 141.25/81.0 |
| Market Capitalization | SAR 10,710 mln  |
| Shares Outstanding    | 90 mln          |
| Free Float            | 56.76%          |
| 12-Month ADTV         | 146,868         |

**1-Year Price Performance**



Source: Bloomberg



| Fig in SAR mln | RC Est. | Actuals |
|----------------|---------|---------|
| Sales          | 1,496   | 1,790   |
| Gross Profit   | 239     | 244     |
| Net Income     | 206     | 215     |
| EPS (SAR)      | 2.29    | 2.39    |

**Robust Revenue Rise**

Jarir announced preliminary 4Q2016 results in line with our expectations with an EPS of SAR 2.39, increasing +4% Y/Y but -2% lower Q/Q. Market consensus was lower at SAR 2.25. +18% Y/Y growth in topline was aided by a boost in sales of electronics (40% of sales mix), mainly as a consequence of higher smart phones sold. We believe continued back to school season and similar discounts have helped Jarir to record their best-ever quarterly revenues to date. On the flip side, margins suffered as they dipped to 13.6% at the gross level. In addition, Jarir managed to reduce selling and marketing expenses this quarter. We maintain a Neutral recommendation on the stock with our target price unchanged at SAR 106.00. 2017E P/E of 13.9x is at a discount to the market's P/E of 14.3x as investors fear impact of lower consumer spending on Jarir.

**Quarter revenues at an all-time high**

Revenues numbers came in substantially beyond market and our expectations at SAR 1.79 bln, an increase of +18% both Y/Y and Q/Q on the back of higher sales of smart phones coupled with promotional activities. We had forecasted higher electronics sales and some impact of extended promotion as part of the back to school season but actuals surprised on the positive side. Revenues from computers and peripherals including laptops and tablets have been lackluster. We believe Jarir has benefitted from the Saudization campaign by the Labor Ministry for telecom shops as a number of them on the high street have shutdown shifting business to more established retailers such as Jarir. For the full year, revenues stand at SAR 6.1 bln, a -4% Y/Y decline due to weaker sales in the first half of the year.

**Gross margins shrink**

Gross profit of SAR 245 mln was flat Y/Y but dropped -3% Q/Q. Gross margins at 13.6%, contracted both Y/Y and Q/Q but are higher than 2Q margins of 11.7%. We believe cost of sales has risen due to higher number of showrooms from 40 to 45. Net income of SAR 215 mln is up +4% Y/Y but down -2% Q/Q while net margins have shrunk to 12.0% compared to 13.7% last year. Our net income forecast was close at SAR 206 million although market consensus was lower at SAR 201 million.

**4Q DPS of SAR 2.10**

Stock price has fallen by -25% in 2016 compared to a rise of +4% in the TASI as investors feared the impact of lower consumer spending on the Company. We expect Jarir to announce a DPS of SAR 2.10 for 4Q16, a payout ratio of 88% taking the full year dividend yield of 6%. Jarir was managed to recover well in the second half of the year after a difficult 1H2016. Going forward, our outlook on the consumer discretionary sector is neutral given that the economy is in a period of re-alignment. Positive trigger for the stock may come from improved macro-economic outlook.

**Key Financial Figures**

| FY Dec31 (SAR mln) | 2016A | 2017E | 2018E |
|--------------------|-------|-------|-------|
| Revenue            | 6,122 | 6,088 | 6,651 |
| EBITDA             | 726   | 756   | 813   |
| Net Profit         | 738   | 770   | 826   |
| EPS (SAR)          | 8.20  | 8.56  | 9.18  |
| DPS (SAR)          | 7.25  | 7.15  | 7.50  |

**Key Financial Ratios**

| FY Dec31   | 2016A | 2017E | 2018E |
|------------|-------|-------|-------|
| BVPS (SAR) | 17.66 | 19.07 | 20.75 |
| ROAE       | 46.4% | 44.9% | 44.3% |
| ROAA       | 29.8% | 29.9% | 29.7% |
| EV/EBITDA  | 14.8x | 14.2x | 13.2x |
| P/E        | 14.5x | 13.9x | 13.0x |

## Stock Rating

| Buy                                       | Neutral  | Sell                                    | Not Rated                |
|---|--|---|--------------------------|
| Expected Total Return<br>Greater than 15% | Expected Total Return<br>between -15% and +15% | Expected Total Return less<br>than -15% | Under Review/ Restricted |

*\* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors*

For any feedback on our reports, please contact [research@riyadcapital.com](mailto:research@riyadcapital.com)

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