

# Jarir Marketing Company

Q4 2016

## Recommendation

**Neutral**

### Fair Value (SAR)

**117**

Price as of January 9, 2017

118.98

Expected Return

-1.7%

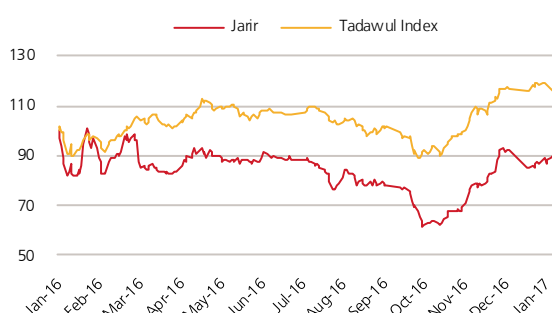
### Company Data

Tadawul Symbol	4190.SE
52 Week High (SAR)	141.25
52 Week Low (SAR)	81.00
YTD Change	1.9%
3-Month Average Volume (Thousand Shares)	189
Market Cap. (SAR Million)	10,708
Market Cap. (USD Million)	2,856
Outstanding Shares (Million Shares)	90

### Major Shareholders ( > 5% )

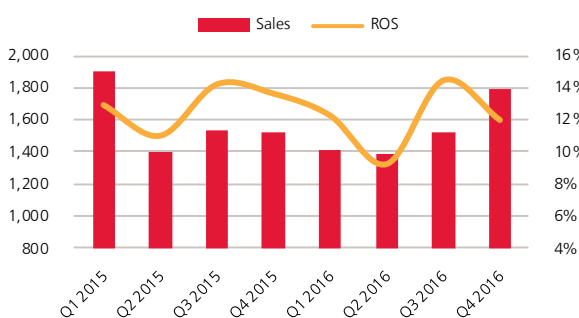
Mohammed Abdulrahman Nasser Alaql	8.84%
Abdulasalam Abdulrahman Nasser Alaql	8.60%
Abdullah Abdulrahman Nasser Alaql	8.60%
Abdulkareem Abdulrahman Nasser Alaql	8.60%
Nasser Abdulrahman Nasser Alaql	8.60%

### 52-week Stock Price Movement



Source: Tadawul

### Quarterly Sales (SAR mn) and ROS



Source: Company Filings, Albilad Capital Research Estimates

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The key performance indicators (KPIs) of Jarir Marketing for Q4 2016 unveiled net earnings of SAR 215 million up 3.46% from SAR 208 million in the same quarter of the previous year. The bottom line, however, dwindled by 2.14% in comparison with the third quarter of 2016, thus the full-year net income hit SAR 738 million sliding 11% from 2015.

The fourth-quarter profit beat our estimate of SAR 197 million and the market consensus of SAR 201 million.

The earning release attributed the improvement in bottom line in the fourth quarter compared to the same period last year to an increase in sales of electronics section, especially smartphones as well as the expansion in the showrooms network from 40 to 45 outlets, as well as lower selling and distribution expenses. Compared with the third quarter, in spite of the 18% QoQ growth in sales, the net income slump was mainly fueled by market competition, and the change in the sales mix as the third quarter coincided with the peak of high-margin office and stationary sales.

The earnings decline in the full year was driven by the shrinkage in sales of the retail section from computer peripherals, electronic games and office supplies as the previous year coincided with the payment of bonuses worth two months of salary to all government employees and pensioners. Wholesale sales fell triggered by the change in the timing of the second semester of 2015/2016. The impact of lower sales was worsened by increased selling, general and administrative expenses.

According to the earning release, the estimated sales of the fourth quarter amounted to SAR 1,794 million compared to SAR 1,524 million for the same quarter of the previous year, an increase of 17.7%. In addition, the top line nudged up 17.9% versus the third quarter. On an annual level, FY16 sales culminated at SAR 6,123 million compared to SAR 6,375 million in 2015, down 4%.

We expect the reduction in some financial allowances for state employees and the recent decree to impose charges on the dependents of foreign workers to weigh on the company's sales going forward, taking into account that Jarir Marketing will incur additional cost from the anticipated adjustment of electricity tariffs this year and the additional cost of foreign labor employment starting from 2018. Nevertheless, it is difficult to gauge the implications of those changes at the time being, and therefore we conservatively cut our fair value estimate for the share from SAR 120 to SAR 117 per share.

FY - Ending December	2014A	2015A	2016A	2017F
EV/EBITDA	14.1	12.6	14.0	13.6
EV/Sales	1.9	1.7	1.7	1.7
P/E	14.4	12.9	14.5	14.2
Dividend Yield	5.6%	6.5%	6.1%	6.0%
P/BV	7.9	7.1	6.7	6.3
P/Revenue	1.9	1.7	1.7	1.7
Current Ratio	1.5	1.6	1.6	1.7
Revenue Growth	8.7%	11.9%	-4.0%	2.7%

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2013A	2014A	2015A	2016E*	2017F
Sales	5,243	5,699	6,375	6,123	6,289
COGS	4,430	4,785	5,372	5,201	5,343
SG&A	143	156	162	170	175
<b>EBITDA</b>	<b>669</b>	<b>758</b>	<b>841</b>	<b>751</b>	<b>771</b>
EBITA Margin	12.8%	13.3%	13.2%	12.3%	12.3%
Depreciation and amortization	21	31	33	47	49
<b>EBIT</b>	<b>648</b>	<b>727</b>	<b>809</b>	<b>705</b>	<b>722</b>
Net interest income	(7)	(5)	(2)	0	0
Others	33	44	46	56	57
<b>Pre-Tax and Zakat Income</b>	<b>675</b>	<b>766</b>	<b>852</b>	<b>760</b>	<b>780</b>
Tax and Zakat	21	20	23	23	23
<b>Net Income</b>	<b>653</b>	<b>745</b>	<b>829</b>	<b>738</b>	<b>756</b>
ROS	12.5%	13.1%	13.0%	12.1%	12.0%

Balance Sheet (SAR mn)	2013A	2014A	2015A	2016E	2017F
Cash and Marketable securities	86	128	110	170	217
Inventory	771	817	793	732	747
Others	316	337	317	303	312
<b>Total ST Assets</b>	<b>1,174</b>	<b>1,282</b>	<b>1,219</b>	<b>1,206</b>	<b>1,276</b>
Net Fixed Assets	994	1,019	1,131	1,214	1,276
Others	33	63	61	61	61
<b>Total LT Assets</b>	<b>1,027</b>	<b>1,081</b>	<b>1,192</b>	<b>1,275</b>	<b>1,337</b>
<b>Total Assets</b>	<b>2,201</b>	<b>2,364</b>	<b>2,411</b>	<b>2,480</b>	<b>2,612</b>

Short Term Debt and CPLTD	125	100	25	0	0
Accounts Payable	527	613	584	566	570
Accrued Expenses	84	86	112	108	111
Others	46	48	55	60	64
<b>Total ST Liabilities</b>	<b>783</b>	<b>846</b>	<b>776</b>	<b>734</b>	<b>745</b>

Total Long Term Debt	125	25	0	0	0
Other Non-Current Liabilities	120	133	131	144	155
<b>Equity</b>	<b>1,173</b>	<b>1,360</b>	<b>1,504</b>	<b>1,602</b>	<b>1,712</b>
<b>Total Liabilities and Equity</b>	<b>2,201</b>	<b>2,364</b>	<b>2,411</b>	<b>2,480</b>	<b>2,612</b>

Cash Flow (SAR mn)	2013A	2014A	2015A	2016E	2017F
Cash flow from Operations	591	809	910	851	802
Cash flow from Financing	(474)	(683)	(785)	(661)	(644)
Cash flow from Investing	(143)	(84)	(143)	(129)	(111)
Change in Cash	(25)	42	(18)	60	47
Ending Cash	86	128	110	170	217

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

\*Estimated numbers except for sales, EBIT and Net income.

## Albilad Capital Rating Methodology

Al-Bilad Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

**Overweight:** The Target share price exceeds the current share price by  $\geq 10\%$ .

**Neutral:** The Target share price is either more or less than the current share price by  $< 10\%$ .

**Underweight:** The Target share price is less than the current share price by  $\geq 10\%$ .

**To be Revised:** No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

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