Jarir Marketing Company

Retail – Industrial
JARIR AB: Saudi Arabia
08 May 2017

الراجحي المالية
Al Rajhi Capital

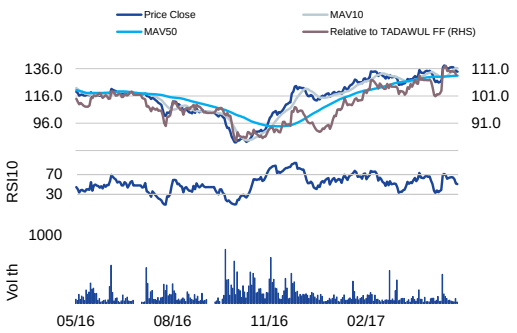
US$3.209bn	87%	US$2.831mn
Market cap	Free float	Avg. daily volume

Target price	**145.8**	9.4% over current
Current price	**133.8**	as at 7/5/2017

Existing rating

Underweight	**Neutral**	Overweight

Performance



Source: Bloomberg

Earnings

Perios End (SAR)	12/14A	12/15A	12/16A	12/17E
Revenue (mn)	5,699	6,375	6,123	6,835
Revenue growth	*8.7%*	*11.9%*	*-4.0%*	*11.6%*
EBITDA (mn)	758	833	748	825
EBITDA growth	*13.3%*	*10.0%*	*-10.3%*	*10.3%*
EPS	8.28	9.21	8.20	9.09
EPS growth	*14.1%*	*11.1%*	*-10.9%*	*10.9%*

Source: Company data, Al Rajhi Capital

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

Jarir Marketing
Q1 2017: Stores expansion pays off

Jarir's Q1 2017 results beat estimates led by higher than estimated revenue growth (20.3% y-o-y vs. estimate of 16% y-o-y) and gross margin (14.5% reported vs. estimate of 13.8%). Revenue growth was likely driven by aggressive new store roll outs (7 in the last 4 quarters, the highest ever y-o-y store additions), better than estimated LFL growth of old stores (~3% y-o-y by our calculations vs. estimate of 0.5% y-o-y decline), and higher than estimated wholesale revenue. We believe Jarir is in a sweet spot to benefit from aggressive store roll-outs as they are coming in an environment where smaller retailers are finding it difficult to operate, either due to regulations (mandatory Saudization of telecom shops by Sept 2016) or due to other headwinds such as lower payable days to suppliers/ costlier working capital credit from banks etc. This is leading to significant market share shift from smaller/ unorganized players to organized players such as Jarir and Extra, which we believe will continue to play out over the medium term. Additionally, electronic retailers stand to gain from the government's recent reversal of allowance cuts, by way of better LFL growth rates, faster maturing of new stores and likely higher gross margins due to lower discounts. We incorporate the same in our estimates and arrive at the new target price of SAR145.8 per share for Jarir (earlier SAR127 per share). Our new target price implies 9.4% upside, hence we rate the stock as Neutral. However, considering ~6.1% dividend yield, the total return for the stock is an attractive 15.5%. Hence we view Jarir as an attractive investment opportunity at the current market price.

- **Gross and operating margin:** Gross margin at 14.5% was ~70bps higher vs. estimate due to better sales mix. Operating margin was ~110bps higher vs. estimate due to better gross margin and healthy SG&A cost control.

- **Healthy dividends cushion downside:** Jarir declared dividend of SAR2.2 per share for Q1 2017 (~90% payout). At similar payout for full year, the 2017 DPS could be SAR8.1 per share, which implies ~6.1% dividend yield at the current market price. Jarir is one of the highest dividend yielding stocks on the Tadawul and hence provides cushion against any short/ medium term downside trigger.

- **Valuation:** Our revised equal-weighted target price (P/E and DCF based) stands at SAR145.8 (9.4% upside). Maintain Neutral rating. However, considering ~6.1% dividend yield, the total return for the stock is an attractive 15.5%. Hence we view Jarir as an attractive investment opportunity at the current market price.

Figure 1 Jarir: Summary of Q1 2017 results

(SAR mn)	Q1 2016	Q4 2016	Q1 2017	% chg y-o-y	% chg q-o-q	ARC est
Revenue	1,417	1,793	1,705	20.3%	-4.9%	1,640.7
Gross profit	214.7	244.8	247.4	15.2%	1.1%	226.4
Gross profit margin	15.1%	13.6%	14.5%			13.8%
Operating profit	163.7	210.1	212.9	30.1%	1.3%	187.0
Net profit	174.1	215.3	221.4	27.2%	2.8%	190.4

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

Mazen AlSudairi
Head of Research
Tel : +966 1 211 9449
Email: alsudairim@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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