

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

JARIR MARKETING COMPANY (JARIR)

4Q2016 Preview

Expected Total Return

| | |
|--------------------------|------------|
| Price as on Dec-21, 2016 | SAR 113.00 |
| Upside to Target Price | -6.2% |
| Expected Dividend Yield | 6.3% |
| Expected Total Return | 0.1% |

Market Data

| | |
|-----------------------|--------------------|
| 52 Week H/L (SAR) | 161.50/81.00 |
| Market Capitalization | SAR 10,170 million |
| Shares Outstanding | 90 million |
| Free Float | 56.76% |
| 12-Month ADTV | 146,118 |

1-Year Price Performance



| 4Q2016E | SAR mln |
|------------------|---------|
| Revenue | 1,496 |
| Gross Margin | 16.0% |
| Operating income | 195 |
| Net Income | 206 |
| EPS (SAR) | 2.29 |

Smartphone Sales Help Topline

We expect revenues to drop marginally by -1.8% Y/Y to SAR 1.49 billion in 4Q2016. Most of the back to school boost in revenues has already occurred in 3Q but higher smartphones and other electronic item sales will likely enhance topline as Jarir has particularly benefitted from closure/understaffing of telecom shops on the high street post Saudization drive. In every 4Q witnesses higher selling and distribution expenses, which we believe is a result of giving greater discounts; this is expected to occur this quarter. We anticipate lower margins and net profits Q/Q but an improvement on a Y/Y basis. While points of sales transactions and ATM withdrawals have ticked up in October, they are still weak indicating a slowing economy. Jarir currently trades at a 2017E P/E of 13.7x lower than TASI's P/E of 15.2x and sector's P/E of 15.0x. We continue to recommend a Neutral but may look at revising target price.

-1.8% Y/Y rise in revenues likely

Following 2016 trend, we believe revenues will decrease by -1.8% Y/Y to SAR 1.49 billion for the quarter, amid robust smartphone sales and some extended promotion as part of the back to school season. Computers and computer supplies sales are likely to have shrunk while office supplies segment is also expected to have been anemic. Retail spending is under pressure as government employees allowances have been cut, reflected in POS and ATM withdrawals data. Jarir has benefitted from the Saudization campaign by the Labor Ministry aimed at mobile and other telecom shops resulting in a closure of many of them and subsequent shifting of business to more established retailers such as a Jarir.

Margins are close to Y/Y levels

We expect gross profit to come in at SAR 239 million, with gross margins of 16%. Net income is forecasted at SAR 206 million (EPS SAR 2.29), a drop of -1% Y/Y, -6% Q/Q. Net margin at 13.8% is 100bps higher than last year.

One new store in 4Q

The Company has opened one new store in Riyadh in 4Q16 (5 for the year) to take the total number of its stores to 45. We believe further new stores are likely to be opened outside KSA.

Huge volatility in the stock this year

After a massive drop in stock price in the bear market, Jarir's stock has rallied smartly by +55%, outperforming the TASI in the current rally. However, we are cautious on the outlook for the retail sector and believe the stock has run up too much too soon. With an expected SAR 2.00 DPS in 4Q, full year payout of SAR 7.15 is expected (dividend yield of 6.3%).

Key Financial Figures

| FY Dec31 (SARmln) | 2015A | 2016E | 2017E |
|-------------------|-------|-------|-------|
| Revenue | 6,375 | 5,868 | 5,828 |
| EBITDA | 844 | 719 | 725 |
| Net Profit | 829 | 740 | 745 |
| EPS | 9.21 | 8.22 | 8.28 |
| DPS | 7.71 | 7.15 | 7.00 |

Key Financial Ratios

| FY Dec31 (SARmln) | 2015A | 2016E | 2017E |
|-------------------|-------|-------|-------|
| BVPS | 16.71 | 17.70 | 18.88 |
| ROAE | 55.1% | 45.9% | 43.6% |
| ROAA | 34.4% | 29.9% | 29.2% |
| EV/EBITDA | 12.1x | 14.3x | 14.1x |
| P/E | 12.3x | 13.9x | 13.7x |

Stock Rating

| Buy | Neutral | Sell | Not Rated |
|---|--|---|--------------------------|
| Expected Total Return Greater than 15% | Expected Total Return between -15% and +15% | Expected Total Return less 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

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