

Rating **Neutral**
 12- Month Target Price **SAR 140.00**

JARIR MARKETING COMPANY (JARIR)

4Q2017 Preview

Expected Total Return

Price as on Jan-02, 2017	SAR 145.59
Upside to Target Price	-3.8%
Expected Dividend Yield	5.8%
Expected Total Return	1.9%

Market Data

52 Week H/L (SAR)	SAR 158.80 /115.00
Market Capitalization	SAR 13,103 million
Shares Outstanding	90 million
Free Float	95.7%
12-Month ADTV ('000's)	66,639
Bloomberg Code	JARIR AB

1-Year Price Performance



Source: Bloomberg



4Q2017E	SAR mln
Revenue	1,824
Gross Margin	15.6%
Operating income	234
Net Income	239
EPS (SAR)	2.65

Accelerated Spending in 4Q Likely

We expect Jarir to record 4Q revenues of SAR 1.8 billion (+2% Y/Y). Although the Y/Y growth appears muted, we need to take into account the high base effect from 4Q2016. It is likely that consumers accelerated their major spending such as buying smartphones, laptops and other electronic items in 4Q, particularly in December owing to the imminent VAT application from January 1, 2018. Smartphones and electronics sales have been strong throughout 2017 as consumers have moved to established retailers versus the high-street. One new store was opened this quarter in Dammam while a replacement showroom was inaugurated in Hofuf. We forecast a +11% Y/Y growth in net income to SAR 239 million (EPS SAR 2.65). Trading at a 2017E P/E of 15.3x, a premium to TASI's 13.0x, we maintain our Neutral rating and a SAR 140.00 target price.

Revenues of SAR 1.8 bln forecast

We anticipate revenues of SAR 1.8 billion for the quarter, an increase of +2% Y/Y on the back of accelerated spending by consumers with an impending imposition of VAT from January 1, 2018. The Y/Y growth would have been higher were it not for the high-base effect of 4Q2016 sales. 2017 has been marked by Jarir gaining market share in the smartphone and electronics segment from smaller retailers. Given VAT and higher energy prices, 1Q 2018 may be tough in terms of sales as consumer adopt and get accustomed to the new reality.

Gross margins to expand Y/Y

We expect a gross profit of SAR 284 million, +16% higher Y/Y. Anticipate an expansion in gross margins to 15.6% this year versus 13.6% last year. However, gross margins are likely to be lower than 17.6% in 3Q2017, when sales were tilted towards higher-margin school supplies.

Stores total 50 at 2017-end

Jarir has managed to add another store this quarter in Dammam taking the new additions in the year to 5 and the total number of stores to 50, of which 41 are in the Kingdom and 9 outside the Kingdom. In addition, a replacement showroom was opened in Hofuf as well. 2017 marks a good year for the Company in terms of branch expansion.

EPS forecast at SAR 2.65

We forecast a net income of SAR 239 million (EPS SAR 2.65), an increase of +11% Y/Y. We expect net margins to be stellar at 13.1%, 110bps higher Y/Y. We are currently Neutral on the stock as it trades slightly above our fair value of SAR 140.00. 2017E P/E of 15.3x is at a premium to the market, but this has always been the case with Jarir.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	6,123	6,765	7,104
EBITDA	743	864	876
Net Profit	738	855	848
EPS (SAR)	8.20	9.50	9.42
DPS (SAR)	7.30	8.40	8.30

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
BVPS (SAR)	17.66	18.95	20.28
ROAE	47.7%	51.9%	48.1%
ROAA	29.0%	31.0%	28.8%
EV/EBITDA	17.5x	15.1x	14.9x
P/E	17.8x	15.3x	15.4x

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

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