Jarir Marketing Co.

Investment Update

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Upgrading to Overweight with revised TP of SAR 223; multiple growth catalysts to drive revenue and profitability

We revise our TP for Jarir to SAR 223.0/share and upgrade our rating on the stock to "**Overweight**" from "**Neutral**". Our positive view is based on strong demand for the company's products, increase in market share through aggressive store expansion, and good traction in online sales, all of which is further evident by a resilient performance in a tough year.

- **Strong demand for smartphones, electronics and other IT and digital products boosting revenues:** The smartphone, electronics and accessories segment posted 7.6% growth in revenue in FY20, while the other IT and digital products and services segment saw a surge of 31.3%. The growth in these segments offset the decline of 20.7% in the Books, Office, school and arts supplies segment, as home schooling became the norm during the on-going pandemic. In Q1-21, revenue grew 8.1% to SAR 2.5bn, driven by the smartphone and computer sales. The company increased its market share by 20% in mobile phones and smart devices segment by 20 percent, while laptop posted a strong 50% increase.We expect sales for high margin school supplies to pick up significantly, once the government allows re-opening of the schools for physical attendance.
- **Store expansion to increase market share complemented by e-commerce platform:** Jarir opened 2 showrooms in FY21, and plans to open a total of 7 stores by the end of FY21. The rise in store count, coupled with adaptation to consumer preferences should enable Jarir to further increase its market share. The company's e-commerce sales rose more than 3x to times to SAR 1.2bn in FY20. Expansion through stores complemented by the online platform places the company in a strong position to capitalize on growth opportunities.
- **Margins likely to remain under pressure in the near term; expected to return close to historical levels toward the end of the year:** GP Margin contracted to 13.3% in Q1-21 from 14.0% in Q1-20. The margin contraction can be attributed to an unfavorable sales mix, following drop in sales in the high margin-generating school and office supplies segment. We expect GP Margin to remain under pressure in the near term on account of the segment's lower contribution to total sales. However, once education shifts to physical attendance, margins should increase and tread close to historical levels.
- **Attractive ROE and dividend yield validate solid business fundamentals:** Jarir paid a dividend of 7.85/share for FY20, representing a dividend yield of 4.4%, despite being impacted by the pandemic. The company is targeting a dividend payout of 80–100% in FY21. The company has a strong ROE (58.1% in FY20), which we estimate would increase to 62.4% by FY23. The high dividend yield provides downside support, and the ROE is a testimony to the returns the company generates for its stakeholders.

AJC View and Valuation: Jarir has posted high single-digit to low double-digit revenue growth over the last four years. The company has successfully navigated through tough economic conditions such as introduction of VAT (FY18), hike in VAT and COVID-19 pandemic (FY20) and maintained its growth trajectory, both in terms of revenue and earnings. We believe Jarir is well-positioned to increase its top line growth through market share gain, driven by store expansion and rise in online sales. Upside and downside risks rest mainly on macro and sector-wide conditions.

We value Jarir assigning 50% weight each to DCF (3.0% terminal growth and 6.7% average WACC), P/E and EV/EBITDA-based relative valuation. These yield a target price of SAR 223.0/share, implying 13.3% upside from the current levels. The stock is currently trading at a P/E of 21.3x as per our FY21 EPS. We revise our recommendation to "**Overweight**" from "Neutral" rating on Jarir and TP to **SAR 223.0/share.**

Overweight

Target Price (SAR)	**223.0**
Upside / (Downside)*	**13.3%**

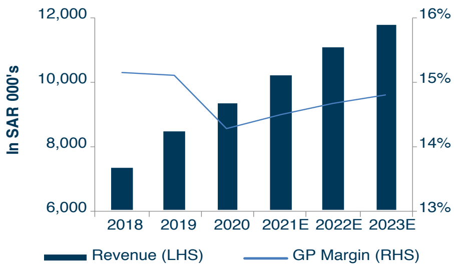
Source: Tadawul *prices as of 3rd of May 2021

Key Financials

SARmn (unless specified)	FY20	FY21E	FY22E
Revenue	9,306	10,172	11,028
Growth %	10.5%	9.3%	8.4%
Gross Profit	1,329	1,477	1,624
Net Profit	1,003	1,110	1,217
Growth %	1.9%	10.6%	9.6%
EPS	8.36	9.25	10.14

Source: Company reports, Aljazira Capital

Revenue (SAR mn) and GP Margin



Source: Bloomberg, Capital

Key Ratios

SARmn (unless specified)	FY20	FY21E	FY22E
Gross Margin	14.3%	14.5%	14.7%
Net Margin	10.8%	10.9%	11.0%
P/E	20.7x	21.3x	19.4x
P/B	12.1x	12.5x	11.7x
EV/EBITDA (x)	17.0x	17.9x	16.4x
Dividend Yield	4.4%	4.0%	4.6%

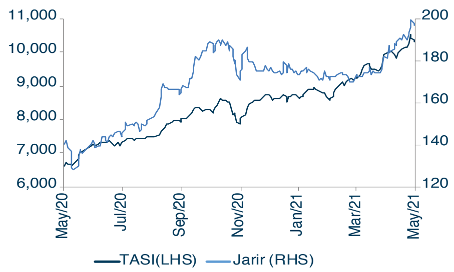
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (mn)	23.6
YTD %	13.5%
52 Week (High / Low)	199.8/125.0
Shares Outstanding (mn)	120.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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Key Financial Data

Amount in SAR mn, unless otherwise specified	2018	2019	2020	2021E	2022E	2023E	2024E
Income statement							
Revenues	7,362	8,425	9,305.8	10,171.8	11,028	11,786	12,352
Y/Y	**6.0%**	**14.4%**	**10.5%**	**9.3%**	**8.4%**	**6.9%**	**4.8%**
Cost of Sales	(6,248)	(7,151)	(7,977)	(8,695)	(9,404)	(10,034)	(10,513)
Gross profit	**1,114**	**1,273**	**1,329**	**1,477**	**1,624**	**1,752**	**1,839**
General and Administrative exp	(107)	(119)	(148)	(160)	(185)	(212)	(222)
Selling and marketing expenses	(93)	(133)	(128)	(165)	(191)	(216)	(226)
Other income	65	49	48	42	55	72	75
Operating profit	**978**	**1,071**	**1,101**	**1,194**	**1,303**	**1,396**	**1,465**
Y/Y	**11.7%**	**9.5%**	**2.8%**	**8.5%**	**9.1%**	**7.1%**	**5.0%**
Financial charges	(4)	(61)	(48)	(46)	(42)	(40)	(38)
Profit before zakat	**974**	**1,010**	**1,052**	**1,148**	**1,261**	**1,356**	**1,427**
Zakat	(14)	(25)	(49)	(39)	(44)	(47)	(50)
Net income	**960**	**984.7**	**1,003.0**	**1,109.6**	**1,217**	**1,309**	**1,377**
Y/Y	**10.6%**	**2.6%**	**1.9%**	**10.6%**	**9.6%**	**7.6%**	**5.2%**
Balance sheet							
Assets							
Cash & bank balance	146	29	97	123	119	130	155
Other current assets	1,612	1,760	1,743	1,883	2,038	2,176	2,280
Property & Equipment	1,115	1,102	1,125	1,165	1,231	1,313	1,408
Other non-current assets	342	1,110	1,034	1,014	985	955	923
Total assets	**3,215**	**4,002**	**3,999**	**4,185**	**4,374**	**4,574**	**4,766**
Liabilities & owners' equity							
Total current liabilities	1,364	1,551	1,515	1,588	1,694	1,790	1,863
Total non-current liabilities	151	805	759	706	667	640	621
Paid -up capital	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Statutory reserves	96	194	295	406	527	658	658
Other reserve	(73.1)	(66.6)	(64.2)	(64.2)	(64.2)	(64.2)	(64.2)
Retained earnings	477	317	295	350	350	350	488
Total owners' equity	1,699	1,645	1,725	1,892	2,013	2,144	2,282
Total equity & liabilities	**3,215**	**4,002**	**3,999**	**4,185**	**4,374**	**4,574**	**4,766**
Cashflow statement							
Operating activities	696	973	1,397	1,204	1,337	1,445	1,534
Investing activities	(134)	(105)	(94)	(163)	(199)	(224)	(247)
Financing activities	(616)	(984)	(1,235)	(1,015)	(1,142)	(1,210)	(1,261)
Change in cash	(54)	(116)	67	26	(4)	11	26
Ending cash balance	**146**	**29**	**97**	**123**	**119**	**130**	**155**
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	1.3	1.2	1.2	1.3	1.3	1.3	1.3
Quick ratio (x)	0.5	0.3	0.4	0.4	0.4	0.4	0.4
Profitability ratios							
GP Margin	15.1%	15.1%	14.3%	14.5%	14.7%	14.9%	14.9%
Operating Margins	13.3%	12.7%	11.8%	11.7%	11.8%	11.8%	11.9%
EBITDA margin	14.1%	14.4%	13.5%	13.2%	13.3%	13.3%	13.4%
Net Margins	13.0%	11.7%	10.8%	10.9%	11.0%	11.1%	11.2%
Return on assets	31.5%	27.3%	25.1%	27.1%	28.4%	29.3%	29.5%
Return on equity	59.6%	66.4%	58.1%	60.0%	61.8%	62.4%	61.6%
Market/valuation ratios							
EV/sales (x)	2.5	2.5	2.3	2.4	2.2	2.0	1.9
EV/EBITDA (x)	17.8	17.1	17.0	17.9	16.4	15.3	14.6
EPS (SAR)	8.0	8.2	8.4	9.2	10.1	10.9	11.5
BVPS (SAR)	14.2	13.7	14.4	15.8	16.8	17.9	19.0
Market price (SAR)*	152.0	165.6	173.4	196.8	196.8	196.8	196.8
Market-Cap (SAR mn)	18,240.0	19,872.0	20,808.0	23,616.0	23,616.0	23,616.0	23,616.0
Dividend yield	4.9%	4.9%	4.4%	4.0%	4.6%	5.0%	5.2%
P/E ratio (x)	19.0	20.2	20.7	21.3	19.4	18.0	17.1
P/BV ratio (x)	10.7	12.1	12.1	12.5	11.7	11.0	10.3

Source: Company financials, AlJazira research

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AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer