



Jarir posted net income of SAR 255.2mn (SAR 2.13 EPS), below our estimate of SAR 341.3mn. Sales decline of 9.5% Y/Y was ascribed to lower-than-expected sales of school and office supplies and smartphones section, along with higher VAT rate. GP Margin decreased due to unfavorable sales mix. We expect margins to remain under pressure in Q4-20 due to lower sales from the school and office supplies segment and hike in VAT rate. We maintain our **“Neutral”** rating on the stock with a TP of **SAR 159.0/share**.

- Jarir recorded net income of SAR 255.2mn in Q3-20 (EPS of SAR 2.13), down 16.3% Y/Y and up 22.5% Q/Q. Net profit for Q3-20 was below our and market estimate of SAR 341.3mn and SAR 270.3mn, respectively. The Y/Y decline can be ascribed to the decrease in sales of the high margin-generating school and office supplies section and the hike in VAT rate, implemented July onward. We expect a decline in net profit in Q4-20 due to the continuation of online education and higher VAT.
- The company's revenue totaled SAR 2,037.9mn in Q3-20, down 9.5% Y/Y and 14.2% Q/Q; this was below our estimate of SAR 2,511.8mn. Sales of school and office supplies declined due to the shift of education from the traditional format to remote learning to curb the spread of the pandemic. Delay in the launch of the new iPhone adversely impacted smartphone sales. The increase in VAT rate to 15% in July from 5% earlier also impacted the net sales. The company opened 2 stores during the quarter taking the total store count to 62, and it plans to open 8 more stores by the end of FY21. We expect revenue to continue to be adversely impacted due to lower sales of school and office supplies, as remote learning would continue in Q4-20; however, the launch of the new iPhone should boost smartphone sales in Q4-20.
- Gross profit stood at SAR 334.5mn, down 14.0% Y/Y and up 10.1% Q/Q; below our estimate of SAR 442.5mn. GP Margin decreased to 16.4% in Q3-20 from 17.3% in Q3-19. The lower GP margin was attributed to unfavorable sales mix due to the decline in sales of the high margin-generating school and office supplies section. We expect the GP Margin to decline in Q4-20, owing to lower contribution to total sales from the school and office supplies section.
- Operating profit stood at SAR 274.9mn, down 16.5% Y/Y and up 21.1% Q/Q. Net OPEX fell 0.3% Y/Y to SAR 59.6mn, below our estimate of SAR 77.9mn.

**AJC view:** Jarir's overall results were below our expectations. We expect net sales growth to be subdued in Q4-20 on lower sales of school and office supplies and impact of higher VAT rate. We expect margins to remain under pressure in the near term due to the increase in VAT rate and higher selling and marketing expenses, given the company's plan to increase market share. We lower our FY20 estimates to SAR 8.22 to reflect the adverse impact of the aforementioned factors. In the long term, we believe Jarir's topline would grow, as it gains market share following its store expansion plans and rise in online sales. Upside and downside risks rest mainly on macro and sector-wide conditions. The stock is currently trading at a P/E of 22.0x based on our FY21 EPS estimate. We maintain our **“Neutral”** rating on Jarir with a TP of **SAR 159.0/share**.

## Results Summary

SARmn	Q3-19	Q2-20	Q3-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,251.2	2,373.9	2,037.9	-9.5%	-14.2%	-18.9%
Gross Profit	389.1	303.7	334.5	-14.0%	10.1%	-24.4%
<i>Gross Margin</i>	17.3%	12.8%	16.4%	-	-	-
EBIT	329.3	227.0	274.9	-16.5%	21.1%	-24.6%
Net Profit	305.0	208.4	255.2	-16.3%	22.5%	-25.2%
EPS	2.54	1.74	2.13	-	-	-

Source: Company Reports, Aljazira Capital

## Neutral

Target Price (SAR) 159.0

Upside / (Downside)\* -15.6%

Source: Tadawul \*prices as of 12<sup>th</sup> of October 2020

## Key Financials

	FY19	FY20E	FY21E
Revenues	8,424.5	9,180.6	9,080.5
Growth %	14.4%	9.0%	-1.1%
Net Income	984.7	986.4	1,026.5
Growth %	2.6%	0.2%	4.1%
EPS	8.21	8.22	8.55

Source: Company reports, Aljazira Capital

## Key Ratios

	FY19	FY20E	FY21E
Gross Margin	15.1%	14.3%	14.6%
Net Margin	11.7%	10.7%	11.3%
P/E	20.2x	22.9x	22.0x
P/B	12.1x	13.4x	12.0x
EV/EBITDA	17.1x	19.4x	18.7x
Dividend Yield	4.8%	4.3%	4.2%

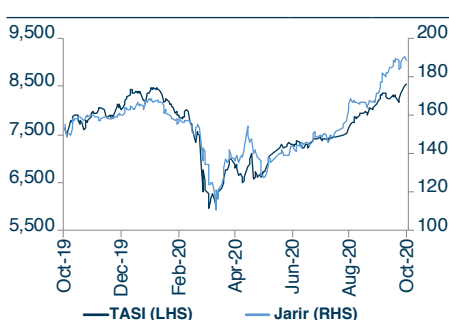
Source: Company reports, Aljazira Capital

## Key Market Data

Market Cap (bn)	22.6
YTD %	13.8%
52 week (High)/(Low)	191.8/110.0
Shares Outstanding (mn)	120.0

Source: Company reports, Aljazira Capital

## Price Performance



Source: Tadawul, Aljazira Capital

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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.

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