

Jarir marketing Company posts strong Q1-19 result. Revenue growth to be driven by higher electronic sales and opening of new stores. Online sales to contribute 5% to gross sales in FY19. We expect margins to decline in FY19 due to Saudization drive. However, increase in the overall income of Saudis would lead to structural shift towards modern retail markets benefiting Jarir. We maintain our **"Neutral"** view on Jarir with a TP at **SAR 168.0/share**.

Positive outlook aided by strong revenue growth in Q1-19: Jarir posted Q1-19 in line result of SAR 233.7mn. This compares with AJC's and market consensus estimates of SAR 225.4mn and SAR 235.4mn, respectively. Revenue grew by 18.0% Y/Y driven by higher electronics sales (smartphones and items from the computer section) and increased store count. The contribution of the smartphones, electronics and accessories section to total revenue increased to 50.3% in FY18 from 44.3% in FY16. We expect this section to continue to drive the company's revenues by adapting to changing consumer preferences. The store count increased on a consistent basis (from 40 stores in Q1-16 to 56 stores in Q1-19). The rise in store count coupled with adaption to consumer preferences should enable Jarir to increase its market share in the near future.

Margins remain stable, change in margin mix expected due to IFRS-16 implementation: GP margin increased on Y/Y basis in Q1-19 to 16.0% Vs. 15.2% as the implementation of the accounting standard IFRS-16 on January 1, 2019 resulted in lower rental expenses offset partially by higher depreciation expenses. However, Operating Margins declined to 13.5% in Q1-19 from 13.8% in Q1-18 due to higher general and administrative expenses driven by labour costs. As per IFRS-16, the company would be treating operating leases as financial leases. As a result of this accounting change, the rental expenses are expected to decline significantly, while depreciation and interest costs would rise by similar amount. This is expected to result in higher GP Margin, compared with the previous periods. However, the impact on the net profit would be minimal.

Expansion through store count increase and online sales: Jarir has been expanding its footprint by opening new stores on a consistent basis. The Company opened 5 showrooms in each of the last five years, increasing the store count from 40 at the start of Q1-16 to 56 at the end of Q1-19. We expect the company to open 4 new stores in FY19, and incur capital expenditure of SAR140mn. As the Company has a strong liquidity position, the expansions would be financed from internal resources. We expect the number of stores to increase from 56 in Q1-19 to 71 at the end of FY22. However, we expect a marginal decline in revenue per store.

Jarir introduced new payment methods, and implemented various promotions to further develop the payment system. This led to an increase of 273% in its e-commerce sales, and 224% rise in e-commerce customers in FY18. The Company has 50 employees dedicated to its online sales division. This is expected to propel online sales growth, which would in turn contribute ~5% to total gross sales (SAR350-370mn) in FY19. We expect online sales to be a major growth driver in FY19, supported by expansion in product mix, new client additions, and new additions to its school supplies brand.

Neutral

Target Price (SAR) 168.00

Upside / (Downside)* -5.1%

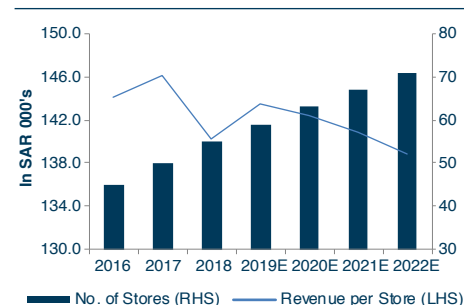
Source: Tadawul *prices as of 29th of April 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	6,941.9	7,361.7	8,183.4
Gross Profit	1,037.2	1,113.8	1,297.6
Net Profit	867.7	960.0	1,019.3
EPS	9.64	8.00	8.49

Source: Company reports, Aljazira Capital

No. of Stores and Revenue per Store



Source: Bloomberg, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY17	FY18E	FY19E
Gross Margin	14.9%	15.1%	15.9%
Net Margin	12.5%	13.0%	12.5%
P/E	11.4x	19.0x	21.0x
P/B	6.1x	10.7x	11.2x
EV/EBITDA (x)	10.6x	17.7x	19.1x
Dividend Yield	7.5%	4.9%	3.8%

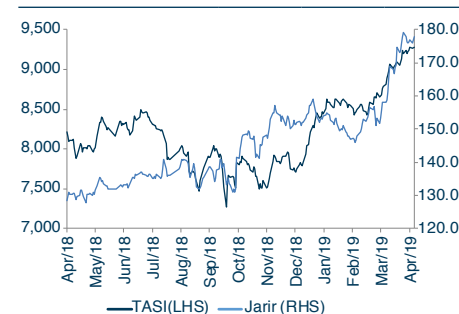
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (mn)	21.2
YTD %	16.45%
52 Week (High / Low)	179.6/127.1
Shares Outstanding (mn)	120.00

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Senior Analyst

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa

Hiring of locals to elevate costs, revenue boost owing to rising purchasing power:

The regulation regarding increasing Saudization in the retail sector to 70% is expected to elevate the operating costs of Jarir and other retail companies. Jarir foresees creation of around 400 job opportunities through its expansion plans, of which 80% would be Saudi citizens. While this could be cost headwind during the initial periods, it would gradually increase the income of Saudis, which would complement the structural shift towards modern retail markets, thereby benefiting Jarir.

Launch of “Apple Shop” and tie-up with banks to increase footfall:

Jarir has set up “Apple Shop” within some of its showrooms. Apple Shop aims at displaying various Apple products in a unique manner, thereby offering customers an enriching shopping experience. This strategy is expected to attract customers who would like to gain personalized information about Apple products before making a purchase call. This would be greatly beneficial, especially during product launches, for customers who would want to first access to the product. Moreover, as purchasing power of Saudis increases, sales owing to “Apple Store” would gain more traction. Jarir has also tied-up with several program partners (Samba, SABB, Riyad and Alawwal banks) to provide customers credits on making card payments. The credits can be redeemed by purchasing items at any of the Jarir bookstore showrooms.

Attractive dividend payout: Jarir is one of the highest dividend paying companies in Saudi Arabia with an average dividend payout ratio of more than 80% over the last five years. The average dividend yield of the last five years is 5.11%. In its FY18 board report, the Company forecasts cash dividend payouts at 80-100% of profit in FY19, in line with the Company’s needs. An attractive dividend yield coupled with low leverage (negligible debt) makes the Company’s stock attractive to investors.

Positive Economic Outlook bodes well for Jarir: According to Fitch Ratings, Saudi Arabia’s economy is expected to report GDP growth of 2.4% in FY19, against an estimate of 2.3% recorded in FY18. Growth is expected to be driven by higher government spending, which would boost investment and consumption. The government aims to create 1.2mn jobs by 2022 by lowering unemployment to 9.0% in the retail sector. This would result in higher purchasing power, thereby resulting in an increase in overall spending. The retail sector is estimated to benefit from this as consumers would deploy the incremental income toward enhancing their standard of living. The shift is evidenced from credit card loans which grew 26.8% Y/Y in Q4-18 to SAR15.3bn, and bank credit which increased 3.6% Y/Y in Q1-19 to SAR1,442.9bn.

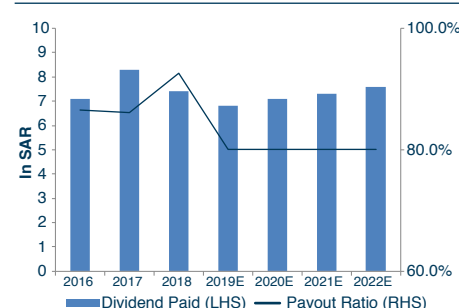
As per the latest monthly release from the Saudi Arabian Monetary Authority (SAMA), total points of sale in terms of value rose 24.7% Y/Y to SAR64.0bn in YTD March 2019, whereas the number of transactions increased 47.8% Y/Y to 326.1mn during this period. We believe this a positive sign for Jarir, which has earmarked online sales as one of its key growth drivers for FY19.

Revenue & Profit and Net Margin



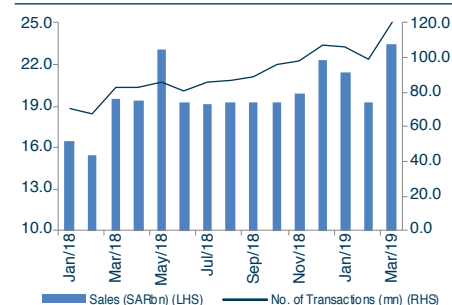
Source: Company reports, Aljazira Capital

Dividend Payout



Source: Company reports, Aljazira Capital

Points of Sales Transactions



Source: Saudi Arabian Monetary Authority, Aljazira Capital

AJC View and Valuation: We believe that Jarir is well-positioned to increase its top-line growth through market share gain driven by store expansion and rise in online sales. We expect the margins to remain under pressure due to higher costs resulting from employment of Saudis, and higher selling and marketing expenses as the Company aims to increase its market share. Upside and downside risks rest mainly on macro and sector-wide conditions. Higher than estimated expansion in operating margins going forward could play out as the upside risk to valuation. A larger impact on revenues from pressure on purchasing power and loss of market share to e-commerce competitors are the key downside risks to valuation.

We value Jarir on 50% weight for DCF (2.5% terminal growth and 7.6% WACC), 25% weight each for P/E (21.3x FY19 EPS) and EV/EBITDA (17.6x FY19 EBITDA) based relative valuation, yielding the target price of **SAR168.0** per share, implying 5.6% downside from current levels. The stock is currently trading at a P/E of 21.0x, based on our FY19 EPS estimate. We maintain a “**Neutral**” rating on Jarir.

DISCOUNTED FREE CASH FLOW TO FIRM Year to Dec (SAR mn)	FY19F Dec-19	FY20F Dec-20	FY21F Dec-21	FY22F Dec-22	FY23F Dec-23	FY24F Dec-24	Terminal Value
Net income	1,019.3	1,135.4	1,168.3	1,212.1	1,269.4	1,325.7	
Depreciation and amortization	58.1	63.1	68.3	74.5	81.0	87.7	
Finance charges	-6.3	-6.2	-6.3	-6.3	-6.3	-6.3	
Change in Working Capital	54	-27	-59	-26	-26	-27	
Capital Expenditure	-131	-139	-147	-172	-180	-188	
Free cash flow	994	1,026	1,025	1,082	1,138	1,192	22,010
Beta	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Debt/ (Debt + equity)	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x	0.0x
Weighted average cost of capital	7.6%	7.6%	7.7%	7.8%	7.8%	7.8%	8.2%
Discount period	0.67	1.67	2.67	3.67	4.67	5.67	5.67
Discount factor @ WACC	1.0	0.9	0.8	0.8	0.7	0.7	0.7
Present value of free cash flow	947	907	841	823	801	777	15,504

TOTAL RETURN

Enterprise value	19,823
Less: Debt	275
Add: Cash	146
Equity value	19,694
No of shares outstanding (mn)	120
Fair value (SAR/share)	164.1
Current price (SAR/share)	177
Expected capital gain	-7.3%

Source: Aljazira Capital

Key Financial Data

Amount in SAR mn, unless otherwise specified	2016	2017	2018	2019E	2020E	2021E	2022E
Income statement							
Revenues	6,122	6,942	7,362	8,183	8,685	9,161	9,578
Y/Y growth	-4.0%	13.4%	6.0%	11.2%	6.1%	5.5%	4.6%
Cost of Sales	(5,247)	(5,905)	(6,248)	(6,886)	(7,301)	(7,706)	(8,050)
Gross profit	875	1,037	1,114	1,298	1,384	1,455	1,528
General and Administrative exp	(94)	(105)	(107)	(144)	(153)	(161)	(169)
Selling and marketing expenses	(76)	(98)	(93)	(141)	(149)	(157)	(164)
Other income	50	41	65	43	83	72	58
Operating profit	705	876	978	1,056	1,165	1,209	1,253
Y/Y growth	-12.8%	24.3%	11.7%	8.0%	10.3%	3.8%	3.7%
Financial charges	0	(1)	(4)	(6)	(6)	(6)	(6)
Profit before zakat	755	875	974	1,050	1,159	1,202	1,247
Zakat	(17)	(7)	(14)	(31)	(23)	(34)	(35)
Net income	738	868	960	1,019	1,135	1,168	1,212
Y/Y growth	-10.9%	17.6%	10.6%	6.2%	11.4%	2.9%	3.8%
Balance sheet							
Assets							
Cash & bank balance	158	200	146	331	511	666	845
Other current assets	1,182	1,298	1,612	1,643	1,743	1,871	1,955
Property & Equipment	1,009	1,076	1,115	1,188	1,264	1,342	1,440
Other non-current assets	285	303	342	342	342	342	342
Total assets	2,634	2,877	3,215	3,504	3,860	4,220	4,582
Liabilities & owners' equity							
Total current liabilities	976	1,103	1,364	1,449	1,521	1,590	1,648
Total non-current liabilities	154	148	151	151	151	151	151
Paid -up capital	900	900	1,200	1,200	1,200	1,200	1,200
Statutory reserves	297	297	96	198	311	428	550
Other reserve	(73.0)	(71.9)	(73.1)	(73.1)	(73.1)	(73.1)	(73.1)
Retained earnings	380	501	477	578	749	924	1,106
Total owners' equity	1,504	1,626	1,699	1,903	2,187	2,479	2,782
Total equity & liabilities	2,634	2,877	3,215	3,504	3,860	4,220	4,582
Cashflow statement							
Operating activities	938	928	696	1,131	1,171	1,177	1,261
Investing activities	(217)	(138)	(134)	(131)	(139)	(147)	(172)
Financing activities	(664)	(748)	(616)	(815)	(852)	(876)	(909)
Change in cash	57	42	(54)	185	181	155	179
Ending cash balance	158	200	146	331	511	666	845
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	1.4	1.4	1.3	1.4	1.5	1.6	1.7
Quick ratio (x)	0.5	0.5	0.5	0.6	0.7	0.8	0.9
Profitability ratios							
Gross profit margin	14.3%	14.9%	15.1%	15.9%	15.9%	15.9%	16.0%
Operating margin	11.5%	12.6%	13.3%	12.9%	13.4%	13.2%	13.1%
EBITDA margin	13.0%	13.3%	14.1%	13.6%	14.1%	13.9%	13.9%
Net profit margin	12.1%	12.5%	13.0%	12.5%	13.1%	12.8%	12.7%
Return on assets	29.3%	31.5%	31.5%	30.3%	30.8%	28.9%	27.5%
Return on equity	51.3%	55.7%	59.6%	55.9%	54.4%	49.2%	45.4%
Market/valuation ratios							
EV/sales (x)	1.2	1.4	2.5	2.6	2.4	2.3	2.2
EV/EBITDA (x)	9.6	10.6	17.8	19.0	17.1	16.3	15.6
EPS (SAR)	8.2	9.6	8.0	8.5	9.5	9.7	10.1
BVPS (SAR)	16.7	18.1	14.2	15.9	18.2	20.7	23.2
Market price (SAR)*	86.6	110.0	152.0	177.0	177.0	177.0	177.0
Market-Cap (SAR mn)	7,793.1	9,903.6	18,240.0	21,240.0	21,240.0	21,240.0	21,240.0
Dividend yield	8.2%	7.5%	4.9%	3.8%	4.0%	4.1%	4.3%
P/E ratio (x)	10.6	11.4	19.0	20.8	18.7	18.2	17.5
P/BV ratio (x)	5.2	6.1	10.7	11.2	9.7	8.6	7.6

Source: Company financials, AlJazira research

RESEARCH DIVISION

Head of Research

Talha Nazar

+966 11 2256250

t.nazar@aljaziracapital.com.sa

Senior Analyst

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa

Analyst

Abdulrahman Al-Mashal

+966 11 2256374

A.Almashal@Aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales

Alaa Al-Yousef

+966 11 2256060

a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutional brokerage

Luay Jawad Al-Motawa

+966 11 2256277

l.almutawa@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province

Abdullah Al-Rahit

+966 16 3617547

a.alrahit@aljaziracapital.com.sa

AGM-Head of Sales And Investment Centers

Central Region, & acting head Western and

Southern Region Investment Centers

Sultan Ibrahim AL-Mutawa

+966 11 2256364

s.almutawa@aljaziracapital.com.sa

RESEARCH DIVISION

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

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities may, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Corporate Finance | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068