

Rating **Neutral**
 12- Month Target Price **SAR 153.00**

JARIR MARKETING COMPANY (JARIR)

4Q2018 First Look

Expected Total Return

Price as on Jan-30, 2019	SAR 154.40
Upside to Target Price	(0.9%)
Expected Dividend Yield	5.0%
Expected Total Return	4.0%

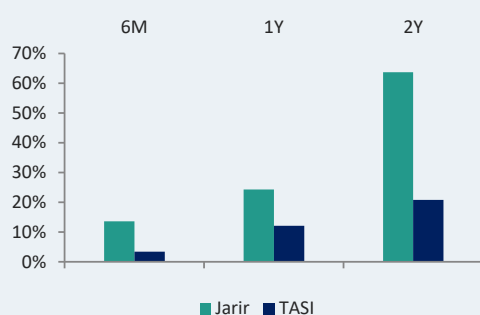
Market Data

52 Week H/L	SAR 159.80/116.44
Market Capitalization	SAR 18,528 mln
Shares Outstanding	120 mln
Free Float	74.5%
12-Month ADTV	107,429
Bloomberg Code	JARIR AB

1-Year Price Performance



Source: Bloomberg



Strong 4Q Caps Successful Year

Jarir's final quarter of the year took cue from the preceding one posting an 8% rise in topline and +15% rise in bottomline. Net income was recorded at SAR 290 million, beating consensus estimates of SAR 270 million and our forecast of SAR 263 million. Revenues surged to SAR 2.1 billion on the back of strong performance from smartphone sales as well as good contribution from the video games section. Increase in the number of stores from 50 to 55 in the year further pushed sales. We raise our net income forecasts for 2019 onwards as consolidation in the industry continues with established retailers gaining at the cost of smaller ones. Our target price has been increased from SAR 136.00 to SAR 153.00. Trading at 18.2x 2019E earnings and in the vicinity of our fair price, we continue a Neutral stance.

Topline exceeds SAR 2 billion

Revenues for 4Q were recorded at SAR 2.1 billion for the quarter, an increase of +8% Y/Y and close to our SAR 2.0 billion forecast. The annual revenues amounted to SAR 7.4 billion (+6% Y/Y). We expect Jarir to have benefited from rising sales in the electronics section, particularly in the smartphone and video games segments. Consolidation in the sector has continued through 2018 whereby bigger sized retailers have taken market share from their smaller counterparts due to better service and offerings. Furthermore, an increase in number of stores by 5 during the year (all within KSA) also played its part. We expect another 5 new stores in 2019 with a skew towards smaller cities as was the case with last 2 new store openings. Rising sales through its electronic channels would continue going forward.

Gross margins lower Y/Y

Gross margins were 50bps lower Y/Y at 15.0% for 4Q versus our 15.6% expectations as the Company continues to face rising costs. Gross profit came in at SAR 320 million, +5% Y/Y but -5% lower than the previous quarter. Jarir has changed reporting methodology whereby other income is now included within operating income. We await detailed financials to gauge the level of operating expenses. Operating profit for the full year has reached SAR 978 million compared to SAR 876 million in 2017.

Target raised to SAR 153

Jarir beat both our expectations and market consensus of SAR 263 million and 270 million respectively, reporting a net income in 4Q of SAR 290 million (+15% Y/Y, +1% Q/Q). Interestingly, net margins have expanded by 40bps Y/Y to 13.6% on improving product management and discounts obtained from some suppliers as well as higher other income. We raise our net income forecast for 2019 and 2020 to SAR 1.02 billion and SAR 1.10 billion respectively, previously SAR 995 million and SAR 1.01 billion. With a 2018 DPS of SAR 7.04 and SAR 7.65 for 2019, dividend yield is at a decent 5%. While we raise our target price from SAR 136.00 to SAR 153.00, the stock remains on our Neutral list. 2019E P/E of 18.2x is a premium to TASI's 15.2x. Jarir has historically traded at a premium due to exposure to retail sector and high return on equity.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Revenue	6,942	7,362*	7,877
EBITDA	917	1,023	1,093
Net Profit	868	960*	1,020
EPS (SAR)	7.23	8.00*	8.50
DPS (SAR)	8.70	7.04	7.65

*preliminary announced data

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
BVPS (SAR)	13.95	15.05	16.25
ROAE	53.2%	55.2%	54.3%
ROAA	31.7%	32.8%	32.4%
EV/EBITDA	21.0x	18.0x	16.9x
P/E	21.4x	19.3x	18.2x

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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