



**US\$6.08bn** Market cap  
**87%** Free float  
**US\$6.06mn** Avg. daily volume

Target price **231.0** +22% over current  
Current price **190.0** as at 15/4/2021

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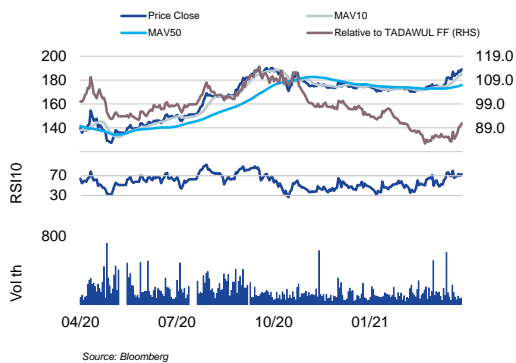
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

	2020A	2021E	2022E
Revenue	9,306	9,984	11,150
Revenue growth	26%	7%	12%
EBITDA	1,258	1,397	1,600
EBITDA Growth	3%	11%	14%
EPS	8.36	9.84	11.37
EPS Growth	2%	18%	16%
DPS	7.7	9.3	10.7
Payout Ratio	92%	95%	95%
ROE	60%	67%	75%

Source: Company data, Al Rajhi Capital

## Jarir Marketing

### Store expansion plan to drive market share; Raise to SAR231/sh

Jarir's Q1 2021 top-line beat our (SAR2.302bn) and consensus (SAR2.399bn) estimates by a good margin as the demand for mobile, laptop, and non-stationary products continued to grow during the quarter, the revenue growth was further supported by new stores opened in 2020. The gross margins diluted 65bps due to unfavorable product mix and we expect the gross margins to be lower than the historical levels due to change in product mix and a higher need for promotions going forward. The operating cost reduced 6% y-o-y and net financing expense also reduced, leading to overall net profit growth of ~6% y-o-y. We revise our outlook for Jarir and raise TP to SAR231/sh.

Figure 1 Summary of Q1 2021 earnings

(SAR mn)	1Q 2021	1Q 2020	Y-o-Y	4Q 2020	Q-o-Q	ARC est	vs ARC
Revenue	2,530	2,340	8%	2,554	-1%	2,302	10%
Gross profit	338	328	3%	363	-7%	322	5%
Gross margin	13%	14%		14%		14%	
Operating profit	286	272	5%	327	-13%	267	7%
Operating margin	11%	12%		13%		12%	
Net profit	268	252	6%	288	-7%	250	7%
Net margin	11%	11%		11%		11%	

Source: Company data, Al Rajhi Capital

**Summary of Q1 2021 earnings:** Revenue increased 8% y-o-y to SAR2.53bn driven by higher sales of electronic products and store expansion. The gross profit margins declined ~65bps y-o-y due to an unfavorable product mix. The SG&A declined 6% y-o-y which supported the operating margin to some extent, the overall EBIT margin fell 35bps y-o-y. The company mentioned in the earnings disclosures that financing expense declined which along with lower operating expenses translated into net profit growth of 6% y-o-y.

**Valuation and Key Risks:** Jarir's s new strategy to offer occasional discounts to gain market share and opening new stores in untapped areas provides strong revenue visibility for the near future. We revise our forecast upwards for Jarir as the company is planning to open 7 new stores in 2021e which will help it to increase market share and top-line growth, though the gross margins might remain under pressure yet we expect operational efficiencies to boost the operating margins. We forecast Jarir's ROE to reach 75% by 2022e. We value Jarir using an equal mix given to DCF and PE-based relative valuation. Our DCF TP based on 8.17% WACC and 2% terminal growth is SAR226/sh and PE-based relative valuation based on 24x FY 2021e EPS is SAR236/sh thus equal-weighted TP stands at SAR231/sh (earlier SAR180/sh) which implies 22% upside from SAR190/sh. We revise our rating to Overweight (earlier Neutral) on the stock.

**Key downside risks to our valuation include:**

- 1) Any slowdown in consumer spending and further dilution of GPM could pose a downside risk to our valuation.
- 2) Re-opening international traveling might lead to a reduction in consumer spending locally and could impact our revenue forecast and valuation.



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