

January 31, 2018

Rating **Neutral**
12- Month Target Price **SAR 163.00**

JARIR MARKETING COMPANY (JARIR)

4Q2017 First Look

Record Quarter

As expected, Jarir witnessed a surge in sales as consumers accelerated their spending in anticipation of VAT implementation from January 1, 2018. In the process, revenues of SAR 1.97 billion even beat 1Q2015 revenues of SAR 1.91 billion, the quarter in which the two salary bonus had been paid. Net income was above market consensus of SAR 237 million and our estimates of SAR 239 million, coming in at SAR 252 million, +17% Y/Y and a new quarter high. Gross margins were in line with our forecast at 15.5% while net margins of 12.8% are better than 12.0% last year. There have been further gains in market share in the electronics and smartphone segments while opening of one new store in 4Q within KSA has also helped. We have revised our forecasts and arrive at a DCF based target price of SAR 163.00 at 2018-end. Maintain Neutral rating.

Revenues reach SAR 1.97 billion

Continued gains in market share in the electronics and smartphones segment in addition to one new store in 4Q besides accelerated spending ahead of VAT implementation as of January 1, 2018 were responsible for a +10% Y/Y and +20% Q/Q growth in revenues to SAR 1.97 billion. This marks the highest quarterly topline achieved by the Company. New smartphone launches in 4Q also aided. While we had expected an extraordinary increase, the pace has surprised on the upside. Going forward, 1Q2018 may not be as bad as people were initially expecting given the new monthly allowance announced by the government in addition to payments through the Citizen Account, which would help negate the impact of VAT and higher energy prices.

Gross margins in line at 15.5%

Gross margin have come in in line with our expectations at 15.5% for the quarter and substantially better than 13.6% last year. While the sales mix was likely tilted towards electronics, we believe the Company has managed to improve margins overall in this segment Y/Y. Gross profit has risen to SAR 306 million beating our SAR 284 million forecast. Operating expenses have showed an unexpected increase to SAR 60 million for the quarter versus an average of SAR 47 million for the previous three quarters; new costs maybe catching up to the Company but we will wait for full financials for the break-up.

Best net income in 4Q

A record net income of SAR 252 million (+17% Y/Y, +2% Q/Q) beat market and our expectations. Net margins have widened to 12.8% as compared to 12.0% last year. Jarir has managed to open 5 new stores in 2017 with 4 of them within the Kingdom. We believe earlier expectations of a sharp downturn in retail in 1Q2018 may not materialize to a large extent given payments under the Citizen Account plus an extra monthly allowance announced by the government. We adjust our forecasts and take them one year forward. Our revised target price for 2018-end stands at SAR 163.00. Maintain Neutral.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	6,123	6,915	7,399
EBITDA	743	876	940
Net Profit	738	868	916
EPS (SAR)	8.20	9.64	10.18
DPS (SAR)	7.30	8.30	8.80

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
BVPS (SAR)	17.66	19.00	20.38
ROAE	47.7%	52.6%	51.7%
ROAA	29.1%	31.5%	31.1%
EV/EBITDA	20.2x	17.1x	16.0x
P/E	20.5x	17.4x	16.5x

Expected Total Return

Price as on Jan-30, 2018	SAR 167.61
Upside to Target Price	-2.8%
Expected Dividend Yield	5.3%
Expected Total Return	2.5%

Market Data

52 Week H/L	SAR 169.80 /122.00
Market Capitalization	SAR 15,085 mln
Shares Outstanding	90 mln
Free Float	95.7%
12-Month ADTV	64,835
Bloomberg Code	JARIR AB

1-Year Price Performance



Source: Bloomberg

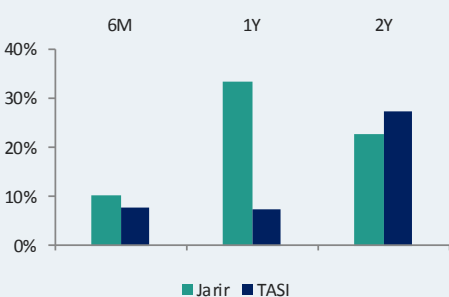


Fig in SAR mln	RC Est.	Actuals
Sales	1,824	1,973
Gross Profit	284	306
Net Income	239	252
EPS (SAR)	2.65	2.80

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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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