

## Jarir Marketing Company

Strong revenue growth and higher operating profit offset the decline in margins

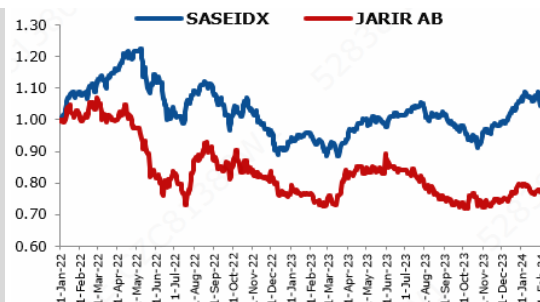
**Current Price**  
SAR 15.20

**Target Price**  
SAR 17.50

**Upside/Downside (%)**  
+15%

**Rating**  
BUY

- Jarir's revenue grew 8.7% YOY to SAR 2,802 Mn in 4Q23, attributable to growth in the sales of video games, smartphones and computer segments.
- Gross profit declined 3.9% YOY to SAR 328 Mn in 4Q23, mainly due to shift in the sales mix towards less profitable sections owing to promotion and discounts given to boost sales.
- Operating profit grew 8.3% YOY to SAR 290 Mn in 4Q23 due to a decline in selling and marketing expenses and a rise in other income.
- The Company opened three stores in 2023, one each in UAE, Kuwait and KSA. During the year the Company also closed its one of the store in Dalma Mall in Abu Dhabi.



### 4Q23 Net Profit in line with our estimate

Jarir Marketing Co ("JARIR", "The Company") reported 2.1% YOY growth in net profit to SAR 273 Mn in 4Q23, in line with our estimate of SAR 267 Mn. The growth in net profit was primarily attributable to 8.7% YOY growth in revenue driven by an increase in sales of video games, smartphones and computer sections along with rise in other operating income partially offset by a decline in gross profit owing to higher cost of sales.

### P&L Highlights

The Company's revenue grew 8.7% YOY to SAR 2,802 Mn in 4Q23 attributable to growth in all in computer, smartphones and video game sections. On the other hand, the cost of sales grew 10.7% YOY to SAR 2,474 Mn in 4Q23. Resultantly, gross profit declined 3.9% YOY to SAR 328 Mn in 4Q23, mainly due to shift in the sales mix towards less profitable sections. Thus, gross profit margin also declined 154 bps YOY to 11.7% in 4Q23. Furthermore, the Company's operating profit rose 8.3% YOY to SAR 290 Mn in 4Q23 owing to a decline in selling and marketing (S&M) expenses and rise in other income. However, the Company's operating margin declined marginally 4 bps YOY to 10.3% in 4Q23. Profit before zakat and tax grew 7.0% YOY to SAR 275 Mn in 4Q23. The company reported negative Zakat charges of SAR 1 Mn in 4Q23 compared to a reversal of Zakat of SAR 11 Mn in 4Q22.

### Balance Sheet Highlights

Jarir's total equity declined from SAR 1,800 Mn in 3Q23 to SAR 1,772 Mn in 4Q23. Jarir's cash flow from operating activities declined to SAR 703 Mn in 9M23 compared to SAR 846 Mn in 9M22 primarily due to an increase investment in working capital.

### Stock Information

Market Cap (SAR, Mn)	18,480.00
Paid Up Capital (Mn)	1,200.00
52 Week High	17.62
52 Week Low	14.00
3M Avg. daily value (SAR)	25,085,940

### 4Q23 Result Review (SAR, Mn)

Total Assets	NA
Total Liabilities	NA
Total Equity	1,772
EBITDA	NA
Net Profit	273

### Financial Ratios

Dividend Yield (12m)	5.36
Dividend Pay-out (%)	95.28
Price-Earnings Ratio(x)	19.11
Price-to-Book Ratio (x)	10.27
Book Value (SAR)	1.50
Return-on Equity (%)	53.73

5 Days	1.18%
1 Months	-1.16%
3 Months	6.21%
6 Months	-0.77%
1 Year	3.49%
Month to Date (MTD%)	1.05%
Quarter to Date (QTD%)	-1.16%
Year to Date (YTD%)	-1.16%

## Target Price and Rating

We maintain our BUY rating on JARIR with a target price of SAR 17.50. The Company reported strong performance owing to a growth in revenue and lower operating expenses which boosted the operating profit. However, the growth was partially offset by a decline in gross profit which fell mainly due to the shift in sales mix towards less profitable sections. The fall in margins was primarily due to the offering of promotions and discounts on smartphones and computers to boost sales. Jarir opened three new stores in 2023 one each in UAE, Kuwait and KSA. In UAE it had opened the store in the University City area, while in KSA it replaced the existing store with a bigger area in the same locality. The company replaced a store in Al-Rashid Mall with another store in the same complex with a larger area. In addition, the Company had opened its new store in the Avenues Mall in Kuwait. During the year the Company also closed its one store which was located in Dalma Mall in Abu Dhabi. After opening the third store in 2023, the Company's total count reached 70 stores, of which 61 are located in KSA. Furthermore, it aims to reach a total store count of 80 showrooms until the year 2025. The Company is also utilizing various marketing strategies to enhance sales within its e-commerce division, aiming to increase online sales and strengthen its market position. Moreover, the company announced to distribute a SAR 0.25 per share dividend for three months ending September 2023 and paid a cumulative dividend of SAR 0.61 for 9M23. Additionally, the Company is trading at an attractive yield of 5.1% in 2023. Considering all these factors, we assign a BUY rating on the stock.

### Jarir - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	18.3	18.0	18.2	18.6	18.7	17.5
PB	11.0	10.5	10.2	10.0	10.1	9.5
EV/EBITDA	15.1	14.4	14.5	14.8	14.4	13.7
Dividend yield	5.3%	5.2%	5.0%	5.3%	5.1%	5.5%

FABS Estimates & Co Data

### Jarir - P&L

SAR Mn	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Sales	2,577	2,639	2,802	2,735	2.5%	8.7%	6.2%	9,392	10,595	12.8%
Cost of Sales	-2,236	-2,255	-2,474	-2,378	4.1%	10.7%	9.7%	-8,104	-9,319	15.0%
<b>Gross profit</b>	<b>341</b>	<b>384</b>	<b>328</b>	<b>358</b>	<b>-8.3%</b>	<b>-3.9%</b>	<b>-14.6%</b>	<b>1,287</b>	<b>1,276</b>	<b>-0.9%</b>
<b>Operating profit</b>	<b>268</b>	<b>316</b>	<b>290</b>	<b>286</b>	<b>1.4%</b>	<b>8.3%</b>	<b>-8.3%</b>	<b>1,019</b>	<b>1,045</b>	<b>2.6%</b>
<b>Profit before zakat &amp; tax</b>	<b>257</b>	<b>305</b>	<b>275</b>	<b>275</b>	<b>0.0%</b>	<b>7.0%</b>	<b>-10.1%</b>	<b>978</b>	<b>995</b>	<b>1.8%</b>
Zakat and income tax	11	-9	-1	-7	NM	NM	NM	-8	-22	172.8%
<b>Profit before NCI</b>	<b>267</b>	<b>296</b>	<b>273</b>	<b>267</b>	<b>2.2%</b>	<b>2.1%</b>	<b>-7.8%</b>	<b>970</b>	<b>973</b>	<b>0.3%</b>
Non-controlling interests	0	0	0	0	NM	NM	NM	0	0	NM
<b>Profit attributable</b>	<b>267</b>	<b>296</b>	<b>273</b>	<b>267</b>	<b>2.2%</b>	<b>2.1%</b>	<b>-7.8%</b>	<b>970</b>	<b>973</b>	<b>0.3%</b>

FABS estimate & Co Data

### Jarir - Margins

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Gross Profit	13.2%	14.6%	11.7%	-154	-286	13.7%	12.0%	-167
Operating Profit	10.4%	12.0%	10.3%	-4	-164	10.8%	9.9%	-98
Net Profit	10.4%	11.2%	9.7%	-63	-148	10.3%	9.2%	-114

FABS estimate & Co Data

## Valuation:

We use Discounted Free Cash flow (DCF), Dividend Discount (DDM) and Relative Valuation (RV) to value Jarir. We have assigned 50% weight to DCF, and 25% weight to DDM and RV valuation method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	18.25	50.0%	9.13
Dividend Discount Model (DDM)	18.33	25.0%	4.58
Relative Valuation (RV)	15.18	25.0%	3.79
<b>Weighted Average Valuation (SAR)</b>			<b>17.50</b>
Current market price (SAR)			15.20
Upside/Downside (%)			<b>+15%</b>

### 1) DCF Method:

Jarir is valued using free cash flow to equity. We have discounted the cash flow using the cost of equity of 8.4%. Cost of equity is calculated by using a 10-year government bond yield of 5.4%, a beta of 0.75 and equity risk premium of 4.0%. Government bond yield is calculated after adding KSA 10-year spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (SAR, Mn)	4,732
Terminal value (SAR, Mn)	17,171
<b>FV to Common shareholders (SAR, Mn)</b>	<b>21,903</b>
No. of share (Mn)	1,200
Current Market Price (SAR)	15.20
<b>Fair Value per share (SAR)</b>	<b>18.25</b>

### DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Cash Flow from Operations	1,103	1,282	1,182	1,428	1,572
CAPEX	-128	-138	-139	-154	-154
Net Change in Lease	29	32	34	36	38
<b>Free Cash Flow to Equity (FCFE)</b>	<b>1,005</b>	<b>1,176</b>	<b>1,077</b>	<b>1,311</b>	<b>1,456</b>
Discounting Factor	0.93	0.86	0.79	0.73	0.67
<b>Discounted FCFE</b>	<b>934</b>	<b>1,008</b>	<b>852</b>	<b>957</b>	<b>981</b>

Source: FAB Securities

## 2) DDM Method:

Jarir's dividend grew in line with profit and the Company also pays regular dividends to its shareholders. Thus, we have valued Jarir using the DDM valuation method. Dividend is discounted at the cost of equity of 8.4%.

Sum of PV (SAR, Mn)	4,732
Terminal value (SAR, Mn)	17,266
<b>FV to Common shareholders (SAR, Mn)</b>	<b>21,998</b>
No. of share (Mn)	1,200
Current Market Price (SAR)	15.20
<b>Fair Value per share (SAR)</b>	<b>18.33</b>

### DDM Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
<b>Dividend Paid</b>					
1Q	244	268	306	329	365
2Q	187	207	225	246	276
3Q	281	301	337	371	415
4Q	275	301	330	365	408
<b>Total Dividend</b>	<b>986</b>	<b>1,077</b>	<b>1,198</b>	<b>1,311</b>	<b>1,464</b>
Discounting Factor	0.93	0.86	0.79	0.73	0.67
<b>Present Value of Dividend</b>	<b>916</b>	<b>924</b>	<b>948</b>	<b>957</b>	<b>987</b>

Source: FAB Securities

## 3) Relative Valuation:

We have used local peers to value Jarir and it is valued using the EV/EBITDA multiple. Jarir traded at premium to peers due to a stable business model and strong cash flow generation hence applying a premium in valuation multiple. It is valued at a premium at 2024 EV/ EBITDA of 14.3x against peer multiple of 11.7x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Extra	1,790	11.0	10.1	15.3	13.3
SACO	363	18.5	13.0	NA	NA
Abdullah al-othaim markets company	246	14.3	13.7	26.1	23.9
Savola group company	6,380	11.7	11.2	24.0	18.8
BinDawood Holding	2,006	11.1	9.6	25.9	22.3
<b>Average</b>		<b>13.3x</b>	<b>11.5x</b>	<b>22.8x</b>	<b>19.6x</b>
<b>Median</b>		<b>11.7x</b>	<b>11.2x</b>	<b>25.0x</b>	<b>20.6x</b>
<b>Max</b>		<b>14.3x</b>	<b>13.0x</b>	<b>26.0x</b>	<b>22.7x</b>
<b>Min</b>		<b>11.1x</b>	<b>10.1x</b>	<b>21.8x</b>	<b>17.4x</b>

Source: FAB Securities

## Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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