Jarir Marketing Co.

Consumer Discretionary| Jarir | 4190

3Q19 Results Update

November 24, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	158.6
Target Price (SAR)	170.0
Upside/Downside (%)	7.2%

As of November 24th 2019

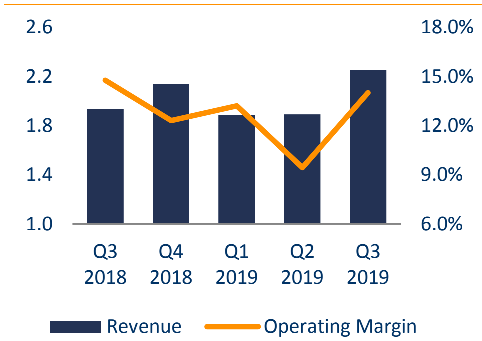
Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	19.0
52-Wk High (SAR)	179.6
52-Wk Low (SAR)	144.6
Total Outstanding shares (in mn)	120.0
Free Float (%)	75.9%

JARIR vs. TASI (Rebased)

Price Performance (%)	Absolute	Relative
1m	4.4%	(1.0%)
6m	(11.2%)	(4.5%)
12m	8.3%	1.8%

Major Shareholders (%)	
Jarir Investment Trading Company	21.8%

Quarterly Sales (SAR bn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 24th November 2019

Strong electronic sales improve bottom-line growth

Jarir Marketing Co. (Jarir)'s revenues increased 16.5% YoY and 19.0% QoQ to SAR 2,251mn in 3Q19, largely supported by the upbeat performance of the computer and electronics segments. Net profit rise was, however, limited to 5.9% YoY to SAR 305mn in 3Q19 due to the promotional price offers and change in sales mix. On a quarterly basis, net profit surged 80.3% on higher sales in most of the segments, supported by the back-to-school season and slower rise in cost of sales. The selling and marketing expenses increased significantly during 3Q19.

Jarir's top line benefited from higher number of showrooms and increased average revenue per store. The trend is expected to continue given the company's focus on store expansion in order to increase its market share. Besides, the company is expected to spend heavily on online platform to increase its penetration in that segment. However, margins are likely to remain under pressure as increasing showroom count would result in lower margins due to higher promotional expenses. In addition, a change in the product mix towards higher concentration of electronics and smartphone may also pressurize margins as these products have lower product margins compared to other product categories. Thus, in view of the above countervailing factors, we maintain our "Neutral" rating on the stock.

- Revenue rose 16.5% YoY and 19.0% QoQ to SAR 2,251mn in 3Q19, supported by strong performance of the electronics and computer segments. Higher smartphone sales benefited the electronics segment the most. Furthermore, addition of showrooms partly contributed to increased retail sales.
- Gross profit expanded 14.9% YoY to SAR 389mn in 3Q19 as the rise in cost of sales limited the benefit received from revenue growth. Gross margin for the quarter marginally contracted to 17.3% compared to 17.5% in 3Q18.
- Operating profit rose 10.4% YoY to SAR 315mn. Conversely, operating margin for the quarter dropped to 14.0% compared to 14.8% in 3Q19 as result of increase in general, administrative, selling, and marketing expenses.
- Net profit expanded 5.9% YoY to SAR 305mn, supported by higher sales. However, higher financial charges ascribed to the use of present value concept in the application of IFRS 16 led to contraction in net profit margin to 13.5% YoY in 3Q19 from 14.9% in 3Q18.
- The company adopted IFRS 16 with from 1 January 2019. The application resulted in a significant impact on the classification of leases of the company and its subsidiaries in the statement of income leading to replacing rent expenses with depreciation of right of use and finance cost.
- For 3Q19, Jarir's board of directors proposed a 25% dividend payment at SAR 2.50 per share for its 120 million shareholders, amounting to SAR 300mn.
- Jarir added one new store this quarter, bringing its total tally of showrooms to 59.

Valuation: We maintain our target price at a fair value of SAR 170.0 per share and retain our "Neutral" rating on the stock.

	3Q19	3Q18	% YoY	FY19E	FY18	% YoY
Revenues (SAR bn)	2.3	1.9	16.5%	8.1	7.4	10.0%
Gross Profit (SAR bn)	0.4	0.3	14.9%	1.3	1.1	14.1%
EBITDA (SAR bn)	0.3	0.3	16.8%	1.1	1.0	13.5%
Net Profit (SAR bn)	0.3	0.3	5.9%	1.1	1.0	10.2%
EPS Basic (SAR)	2.5	2.4	5.9%	8.8	8.0	10.2%
Gross Margin (%)	17.3%	17.5%	(0.2%)	15.7%	15.1%	0.6%
EBITDA Margin (%)	15.5%	15.5%	0.0%	13.6%	13.2%	0.4%
Net Profit Margin (%)	13.5%	14.9%	(1.4%)	13.1%	13.0%	0.0%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by ≥ 10%.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by ≥ 10%.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company`s performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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