



Jarir posted a net income of SAR 305.0mn (SAR 2.54 EPS), in-line with our estimate of SAR 306.3mn. Overall sales increased; driven by the electronics section where growth in sales was led by smartphones. Increase in the number of showrooms (53 in Q3-18 to 59 in Q3-19) also contributed to the rise in overall sales. Operating Margin declined due to promotional price offers and change in sales mix. We expect margins to slightly contract in Q4-19 due to pricing pressure. We maintain our **"Neutral"** rating on the stock with a TP of **SAR 168.00/share**.

- Jarir recorded a net income of SAR 305.0mn in Q3-19 (EPS of SAR 2.54), up 5.9% Y/Y and 80.4% Q/Q. Net profit for Q3-19 was in-line with AJC and market estimate of SAR 306.3mn and 306.5mn respectively. The Y/Y increase was mainly due to rise in sales, driven by addition of showrooms and strong sales of electronic items and computers.
- The company's revenue totaled SAR 2,251.1mn in Q3-19, up 16.5% Y/Y and 18.9% Q/Q; it was above our estimate of SAR 2,163.7mn due to higher-than-expected average revenue per store. Sales increased across categories. In line with the trend seen in recent quarters, the company registered strong sales of electronics products, led by smartphones, and a healthy traction in sales of computer. Jarir opened one new showroom in Q3-19, taking the total showroom count to 59 Vs. 53 in Q3-18. Addition of showrooms also contributed to the overall growth in revenue.
- Gross profit stood at SAR 389.1mn, up 14.9% Y/Y and 66.4% Q/Q; it was in-line with our estimate of SAR 382.0mn. However, the GP Margin declined slightly to 17.3% in Q3-19 from 17.5% in Q3-18, coming in below our estimate of 17.7%.
- Operating profit stood at SAR 329.3mn, up 11.8% Y/Y and 72.8% Q/Q. OPEX rose 35.9% Y/Y to SAR 59.8mn from SAR 44.0mn in Q3-18, surpassing our estimate of SAR 51.2mn. It increased due to higher selling & marketing and non-operating expenses.

AJC view: Jarir's overall result was in-line with our expectations. We expect the sales momentum seen in Q3-19 to continue in Q4-19, driven by electronics. Considering Jarir's position, we believe its top-line would grow further as the company gains market share following expansion in stores and rise in online sales. We expect margins to remain under pressure due to higher costs resulting from the employment of Saudis, along with higher selling & marketing expenses, given the company's plan to increase market share. Upside and downside risks rest mainly on macro and sector-wide conditions. We have valued Jarir assigning 50% weightage to DCF (3.0% terminal growth and 7.9% average WACC), 25% weight each for P/E (17.8x FY20 EPS) and EV/EBITDA (13.6x FY20 EBITDA) based relative valuation; this yields a TP of SAR 168.0/ share, implying an upside of 6.6% from current levels. The stock is currently trading at a P/E of 16.6x based on our FY20 EPS estimate. We maintain our **"Neutral"** rating on Jarir with a TP of **SAR 168.00/share**.

Results Summary

SARmn	Q3-18	Q2-19	Q3-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1,932.1	1,892.6	2,251.0	16.5%	18.9%	4.0%
Gross Profit	338.6	233.9	389.1	14.9%	66.4%	1.9%
Gross Margin	17.52%	12.36%	17.29%	-	-	-
EBIT	294.6	190.6	329.3	11.8%	72.8%	-0.5%
Net Profit	288.0	169.1	305.0	5.9%	80.4%	-0.4%
EPS	2.40	1.41	2.54	-	-	-

Source: Company Reports, Aljazira Capital

Neutral

Target Price (SAR) **168.0**

Upside / (Downside)* **6.6%**

Source: Tadawul *prices as of 9th of October 2019

Key Financials

	FY17	FY18	FY19E
Revenues	6,491.9	7,361.7	8,432.1
Growth %	13.4%	6.0%	14.5%
Net Income	867.7	960.0	1,007.7
Growth %	17.6%	10.6%	5.0%
EPS	9.64	8.00	8.40

Source: Company reports, Aljazira Capital

Key Ratios

	FY17	FY18	FY19E
Gross Margin	14.9%	15.1%	15.4%
Net Margin	12.5%	13.0%	12.0%
P/E	15.2x	19.0x	18.8x
P/B	8.1x	10.7x	9.9x
EV/EBITDA (x)	14.2x	17.8x	15.2x
Dividend Yield	5.9%	5.2%	4.3%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	18.90
YTD %	+7.3%
52 week (High)/(Low)	179.60/129.94
Shares Outstanding (mn)	120.00

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Senior Analyst

Jassim Al-Jubran

+966 11 2256248

i.aliabran@aljaziracapital.com.sa



RESEARCH DIVISION

Head of Research

Talha Nazar

+966 11 2256250

t.nazar@aljaziracapital.com.sa

Senior Analyst

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa

Analyst

Abdulrahman Al-Mashal

+966 11 2256374

A.Almashal@Aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales

Alaa Al-Yousef

+966 11 2256060

a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutional brokerage

Luay Jawad Al-Motawa

+966 11 2256277

l.almutawa@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province

Abdullah Al-Rahit

+966 16 3617547

a.alrahit@aljaziracapital.com.sa

AGM-Head of Sales And Investment Centers

Central Region, & acting head Western and

Southern Region Investment Centers

Sultan Ibrahim AL-Mutawa

+966 11 2256364

s.almutawa@aljaziracapital.com.sa

RESEARCH DIVISION

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2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068