

## Saudi Retail Sector

Retail –Industrial

Saudi Arabia

24 November 2019

الراجحي المالية  
Al Rajhi Capital



US\$8.236bn

Market cap

65.25%

Free float

US\$27.0mn

Avg. daily volume

Research Department

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### Key theme

Recently we have observed a shift in the consumer discretionary spending driven by rising entertainment options in the kingdom. Apart from entertainment options other areas where consumer spending is expected to increase in future are healthcare, fine dining restaurants, housing and utilities. Thus spending towards shopping and visiting mall which was the only source of entertainment in past will remain muted going forward.

### What do we think?

Stock	Rating	Price Target
Extra	Neutral	SAR74
Fawaz Alhokair	Neutral	SAR22
Jarir Marketing Co	Neutral	SAR156

## Consumer Discretionary

### Increasing entertainment avenues are changing consumer spending behaviour

We have observed a structural shift in the spending pattern of Saudi nationals due to significant changes happening in the kingdom. The increasing entertainment avenues are expected to take a considerable share of consumer discretionary spending as per our research. Earlier due to limited options, shopping was one of the main mode of entertainment activities for the people. However with movie theatres, various cultural events, music shows, sports events taking place very frequently in the kingdom people have more options to spend. Recently the government started Riyadh season which is expected to last for three to four months and we have observed a heavy footfall in the event, till date more than 5mn visitors and 100,000 tourists visited the season. As per our understanding per visit to the season would cost on an average SAR300-400 per person and similar other events are scheduled in different parts of the kingdom in coming months. With relatively young population and changing demographics along with several social changes in the country we feel entertainment industry is the next big theme which will drive the consumer spending. Apart from entertainment other areas where we feel the spending of Saudi nationals will increase is towards healthcare, housing, utilities and restaurants specially fine dining. Therefore we feel that the amount of discretionary spending which was earlier flowing to shopping of clothing, apparels, footwear, consumer electronics goods, etc. will remain modest and thus we revise our forecast for Extra, Jarir and Fawaz Alhokair accordingly.

Fig 1 Average monthly income and expenditure in Saudi Arabia

	2018	2019E	2020e	2021e	2022e
Average monthly household income	14,823	15,078	15,338	15,602	15,871
Average monthly household consumer spending	16,125	16,403	16,685	16,973	17,265
<b>Monthly household expenditure</b>					
Services and Personal goods	22.40%	22.00%	21.00%	20.00%	19.00%
Housing and utilities	22.40%	24.00%	24.00%	24.00%	24.00%
Food and Beverages	16.30%	15.00%	14.50%	14.50%	14.50%
Transportation	12.40%	12.40%	12.40%	12.40%	12.40%
Home furnishing	6.50%	6.50%	6.50%	7.00%	7.00%
Telecom	5.10%	5.10%	5.10%	5.10%	5.10%
Restaurants and Hotels	4.50%	5.00%	5.20%	5.30%	5.50%
Fabric apparel and footwear	3.70%	3.20%	2.80%	2.50%	2.50%
Entertainment and culture	2.90%	3.30%	3.70%	4.00%	4.40%
Education	2.20%	2.20%	3.00%	3.00%	3.00%
Health	1.40%	1.60%	1.80%	2.00%	2.30%
Tobacco	0.30%	0.20%	0.20%	0.20%	0.20%

Source: GASTAT, Al Rajhi Capital

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**United Electronics Co (Extra)**

Period End (SAR)	12/18A	12/19E	12/20E	12/21E
Revenue (mn)	4,394	5,093	5,525	5,800
Revenue Growth	4.4%	15.9%	8.5%	5.0%
Gross profit	780	905	1,017	1,080
Gross margin	17.7%	17.8%	18.4%	18.6%
EBITDA (mn)	219	273	305	332
EBITDA margin	5.0%	5.4%	5.5%	5.7%
Net Profit	161	208	236	252
Net Margin	3.7%	4.1%	4.3%	4.3%
EPS	3.2	4.2	4.7	5.0

Source: Company data, Al Rajhi Capital

**Fawaz Alhokair Estimates**

Period End (SAR)	3/19A	3/20E	3/21E	3/22E
Revenue (mn)	5,426	5,213	5,107	5,256
Revenue Growth	-11.3%	-3.9%	-2.0%	2.9%
Gross profit	1084	1616	1583	1629
Gross margin	20.0%	31.0%	31.0%	31.0%
EBITDA (mn)	702	1,299	1,291	1,334
EBITDA margin	12.9%	24.9%	25.3%	25.4%
Net Profit	144.7	-42.8	103.1	158.1
Net Margin	2.67%	NA	2.02%	3.01%
EPS	0.69	NA	0.49	0.75

Source: Company data, Al Rajhi Capital

**Jarir Marketing Co**

Period End (SAR)	12/18A	12/19E	12/20E	12/21E
Revenue (mn)	7,362	8,333	8,982	9,466
Revenue Growth	6.0%	13.2%	7.8%	5.4%
Gross profit	1,114	1,274	1,367	1,425
Gross margin	15.1%	15.3%	15.2%	15.0%
EBITDA (mn)	970	1,127	1,199	1,240
EBITDA margin	13.2%	13.5%	13.3%	13.1%
Net Profit	960	1,021	1,076	1,109
Net Margin	13.0%	12.3%	12.0%	11.7%
EPS	8.0	8.5	9.0	9.2

Source: Company data, Al Rajhi Capital

**United Electronics Company (6% Upside)**

**Key investment themes:** We believe that Extra’s Tasheel program will help the company in standing out compared to other discretionary retailers and contribution of tasheel sales to the overall sales should improve (8% in 2019 to 13% in 2021e) given the fact that with increasing expenditure in other avenues consumption on credit will grow and Extra’s well established consumer financing model will help it to sustain the current level of sales. We revise the top-line growth to 8.5% y-o-y to SAR5.52bn in FY 20e and 5% y-o-y to SAR5.8bn in FY 21e as we reduce the basket size growth in our forecast factoring in the reduced consumer spending towards electrical appliances.

**Valuation:** We continue to value Extra based on equal weights for DCF ( SAR 72.6/sh.) and P/E based relative valuation (16x FY20 EPS, SAR76.2/sh.) therefore yielding a target price of SAR74/sh (earlier SAR80/sh) which implies ~6% upside from CMP of SAR70. We downgrade the stock to “neutral”.

**Fawaz Alhokair (8% downside)**

**Key investment themes:** We believe that due to several store closure in the past it will be difficult for the company to regain the lost market share. We are expecting the store closure to come to an end by 2019e and expect a gradual recovery in sales from 2022e onwards. We are expecting a reduction in the percentage of income spent on clothing and apparel from 3.7% in 2018 to 2.8% in 2020e. For Alhokair we forecast a negative revenue growth of -4% y-o-y in FY 20e and -2% y-o-y in FY 21e respectively. In our future estimates we have assumed the total number of stores to increase to 1814 by 2023e and based on a LFL growth of 1.8% in both Saudi and international market we forecast overall revenue to reach SAR5.48bn by 2023e.

**Valuation:** We value Alhokair based on equal weights for DCF and EV/EBIDTA based relative valuation. Our DCF based target price is SAR24 per share, assuming 9% WACC (35% debt in capital structure) and 2.0% terminal growth. The EV/EBIDTA based relative valuation based on 9x FY2020e EBIDTA yields a target of SAR20 per share. The equal weighted target price stands at SAR22 per share implying ~8% downside from current price of SAR23.84. We remain “neutral” on the stock.

**Jarir Marketing Company (-1.2% downside)**

**Key investment themes:** For Jarir we feel that there will be some pressure on the top-line as the consumer electronics business will face headwinds from reduced consumer spending as per our thesis above. Stationery business is expected to remain defensive and continue to grow by double digit as per our revised forecasts. We expect Jarir’ s top-line to grow 8% y-o-y to SAR8.9bn by 2020e and to SAR9.5bn by 2021e.

**Valuation:** We value Jarir based on equal weights for DCF, DDM and PE based relative valuation. Our DCF based target price is SAR146 per share, assuming 8.25% WACC (5% debt in capital structure) and 2.5% terminal growth. The PE based relative valuation based on 17.6x FY2020e EPS yields a target of SAR157.6 per share and DDM based target price stands at SAR165 per share. Thus the equal weighted target price stands at SAR156.20 per share implying ~1% downside from current price of SAR158. We remain “neutral” on the stock.



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