Jarir Marketing Co.

Result Flash Note Q4-22

Jarir posted a net profit of SAR 267.6mn (SAR 2.23 EPS), in-line with our estimate of SAR 269.3mn and consensus estimates of SAR 261.0mn. Revenue increased 11.2% Y/Y supported by sale of school and office supplies as well as sale of smartphones. GP margin improved ~93 bps Y/Y to 13.3% in Q4-22 as Q4-21 witnessed lower sales but higher store operating expenses. Net profit was also supported by a one-off reversal of tax provision of SAR 17.0mn in Q4-22 (adjusted net profit: SAR 250.6mn). Our positive outlook is based on a foreseeable increase in market share through store expansions, ability to navigate through current challenges, and a healthy return profile. Further easing of shipping costs and inflationary environment is expected to support margin expansion post H2-2023. We maintain our "Overweight" rating on the stock with a revised TP of SAR 184.0/share.

- Jarir recorded a net income of SAR 267.6mn in Q4-22 (EPS of SAR 2.23), an increase of 1.9% Y/Y, yet a decline of 2.2% on a sequential basis. Net profit for Q4-22 was in line with our estimate of SAR 269.3mn and market estimates of SAR 261.0mn. The increase in sales were partially offset by higher OPEX driven by increased spending on ads and promotions to support the sales growth, which resulted in decline in EBIT. However, the company registered a one-off reversal of tax provisions of SAR 17.0mn in Q4-22 which supported the net income.
- The company's revenue totaled SAR 2,577.3mn in Q4-22, up 11.2% Y/Y and 2.4% Q/Q; this was in line with our estimate of SAR 2,603.9mn. The rise in revenue can be mainly attributed to the sale of school and office supplies coupled with sale of smartphones, boosted by offering promotions and discounts. We expect Jarir's revenue to increase by 5.2% Y/Y in FY23E and 6.1% Y/Y in FY24E, mainly driven by the expansion of new stores. Jarir added three new showrooms in FY22, including its first international store in Bahrain, and closed one showroom in KSA. We expect Jarir to add 3-4 stores per year on an average driven by the company's store expansion plan.
- Gross profits rose 19.6% Y/Y to SAR 341.5mn (-8.3% Q/Q); however it was below our estimate of SAR 360.7mn. The GP margin improved to 13.3% in Q4-22 from 12.3% in Q4-21 but was lower than our estimate of 13.9%. The higher cost of sales (+10.0% Y/Y, +4.2% Q/Q) can be attributed mainly to promotions and discounts offered to boost revenue. We expect further reductions in shipping costs driven by easing supply chain conditions which would support expansion of GP margin. (FY23E: 14.1% and FY24E: 14.3%).
- Operating profit was recorded at SAR 267.5mn (-3.7% Y/Y and -8.2% Q/Q) and was below our estimate of SAR 286.8mn. Net OPEX (excluding one time gain of SAR 38mn on sale of land in Q4-21) increased 61.2% Y/Y to SAR 74.0mn. Consequently, the OPEX-to-sales ratio increased to 2.9% in Q4-22, as compared to 2.0% (adjusted) in Q4-21 (3.2% in Q3-22).

AJC view: Jarir's net profit was in line with our estimate in Q4-22. Additionally, lower than expected profit margins were offset by a one-off reversal of tax provisions. Inflationary as well as competitive environment impacted Jarir's topline in FY22, we foresee these pressures to continue till H1-23 and gradually ease thereafter. Moreover, we expect consumer spending to enhance post H1-23, which we believe will boost sales. Further easing of shipping costs and improving topline is expected to support margin expansion. Our view on Jarir is supported by the company's expansion plans, healthy return profile and strong dividend yields. Based on our assumptions, we expect net profit to increase by 8.8% Y/Y to SAR 1,055mn in FY23E. The stock is currently trading at a P/E of 17.1x based on our FY23 EPS estimate. We retain our "**Overweight**" recommendation on the stock with a revised TP of **SAR 184.0/share**.

Results Summary

SARmn	Q4-21	Q3-22	Q4-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,318.1	2,517.0	2,577.3	11.2%	2.4%	-1.0%
Gross Profit	285.6	372.3	341.5	19.6%	-8.3%	-5.3%
Gross Margin	*12.3%*	*14.8%*	*13.3%*	-	-	-
EBIT	277.7	291.3	267.5	-3.7%	-8.2%	-6.7%
Net Profit	**262.5**	**273.7**	**267.6**	1.9%	-2.2%	-0.6%
EPS	2.19	2.28	2.23	-	-	-

Source: Company reports, Aljazira Capital

Recommendation	**Overweight**
Target Price (SAR)	184.0
Upside / (Downside)*	22.3%

Source: Tadawul *prices as of 31st of January 2023

Key Financials

SARmn (unless specified)	FY21	FY22	FY23E	FY24E
Revenues	9,088	9,392	9,876	10,478
Growth %	-2.3%	3.3%	5.2%	6.1%
Net Income	992	970	1,055	1,155
Growth %	-1.1%	-2.2%	8.8%	10.5%
EPS	8.3	8.1	8.8	9.6

Source: Company reports, Aljazira Capital

Key Ratios

	FY21	FY22	FY23E	FY24E
Gross Margin	13.5%	13.7%	14.1%	14.3%
Net Margin	10.9%	10.3%	10.7%	11.0%
P/E (x)	23.8	18.6	17.1	15.6
P/B (x)	13.3	10.0	9.2	8.6
EV/EBITDA (x)	19.6	15.8	14.4	13.2
Dividend Yield*	4.0%	4.9%	5.3%	5.7%

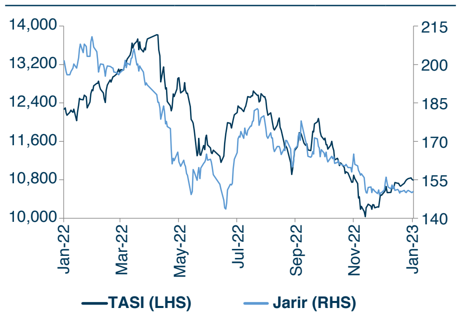
Source: Company reports, Aljazira Capital *Assumed for FY22 as detailed financials and dividend payment for Q4-22 is not yet disclosed

Key Market Data

Market Cap(bn)	18.0
YTD%	0.3%
52 week (High)/(Low)	210.8/143.6
Share Outstanding (bn)	120.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
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.

Disclaimer