

**Outperforms estimates due to stronger margins and lower selling & distribution expenses. Rising competition to impact growth; however robust DY limits risk**

Jarir posted net income of SAR 296.3mn for 3Q-23 up 8.2% Y/Y and higher by 90.2% on a sequential basis. The result was 18.7% and 11.2% above our and market's estimates. The deviation to our forecast mainly comes on account of stronger gross profit margins, that stood at 14.6% in 3Q-23 as compared to our estimate of 12.0%. The company logged in revenue growth of 4.8% Y/Y (8.3% on a Q/Q basis). The growth mainly emanated from video games, computers, smart TVs and additional services. Gross profit improved by 326bps Y/Y to SAR 384.4mn, while gross margins saw an attrition of 22bps Y/Y to 14.6%. Operating profits improved by 8.5% Y/Y owed to lower selling and marketing expenses (ad expenses to support promotions and sales) and higher other income. Consumer electronic business is facing rising competition, and the high margin school supplies segment is being impacted by digitalization, moreover consumer buying power has been effected by rising inflation/interest rates, hence we revise down sales and earnings estimates for Jarir. We highlight that strong 2024E dividend yield of 5.2% limits downside risk. We maintain our "Overweight" recommendation on Jarir, with a revised down TP of SAR 17.9/share.

**Q3-23 Earning beat estimates due to stronger than expected gross margins and lower selling and marketing expenses:** Jarir posted net income of SAR 296.3mn for 3Q-23 up 8.2% Y/Y and higher by 90.2% on a sequential basis. The result was 18.7% and 11.2% above our and market's estimates. The deviation to our forecast mainly comes on account of stronger gross profit margins, that stood at 14.6% in 3Q-23 as compared to our estimate of 12.0%. On an Y/Y basis improvement in bottom line mainly came from decline in selling and marketing expense on ads to support sales and promotions, and higher other income. The massive improvement in earnings on a Q/Q basis is owed to favorable change in sales mix towards high margin products (especially school supplies), increase in other income and lower finance expense due to decline in borrowings. The company logged in revenue growth of 4.8% Y/Y (8.3% on a Q/Q basis). The growth mainly emanated from video games, computers, smart TVs and additional services. School and office supplies sales were impacted due to move towards digitalization. We forecast sales to grow at 2022-25 CAGR of 6.5%, our view is premised on kingdoms large young population (63% of Saudi's are under age 30 - median age of population is 29), high per capita income (GDP per capita USD59,065) and Jarir's store expansions (management has guided opening 4-5 stores per year).

We highlight that Jarir has opened three new showrooms in 9M-23 (closed one showroom as it was replaced by a larger one). Gross profit improved by 326bps Y/Y to SAR 384.4mn in Q3-23, while gross margins saw an attrition of 22bps Y/Y to 14.6%, as there is rising competition in consumer electronic business. On a sequential basis, margins improved by a massive 473bps, as the company had sizable buy now pay later sales in Q2-23 and better sales mix. Margins are likely to see some attrition in 4Q-23 due to lower back to school sales. Operating profits improved by 8.5% Y/Y (up 480bps Q/Q) to SAR 316.1mn, amidst 40bps Y/Y expansion in operating margins to 12.0%, owed to lower selling and marketing expenses (ad expenses to support promotions and sales) and higher other income. Overall, we expect Jarir to post medium term (2022-25) earnings CAGR 4.1%.

**We revise down estimates on increasing competition, lower consumer buying power and digitalization:** Three factors have led us to revise down our sales, gross margins and earnings growth forecasts for Jarir, firstly there is increased competition in the consumer electronic business, secondly consumer buying power has been impacted by inflation/high interest rates and lastly shift towards digitalization is impacting sales of higher margin school supplies. Overall, we expect gross margins to average at 12.6% over 2023-27 (vs 10-year average of 14.7%), sales to grow at a CAGR of 6.4% over 2022-27 (vs 10-year average of 7.3%), and earnings to increase at a 2022-27 CAGR of 5.4% (as compared to 10-year average of 5.5%). Note that our net income growth is almost in line with 2022-27E store network expansion rate of 5.8%.

**Balance sheet strength would help sustain dividends and limit down side risk:** Jarir offers one of the highest dividend yields in the sector, that limits the downside risk in the stock price in our view. Strong free cash flow generation, low capital intensive business, and almost zero debt on the balance sheet help the company to sustain robust payouts, despite store additions. The chairman in a recent interview has guided that the company will maintain very high dividends. We estimate 2024/25 DY at a healthy 5.2/5.5% respectively.

<b>Recommendation</b>	<b>Overweight</b>
<b>Target Price (SAR)</b>	<b>17.9</b>
<b>Upside / (Downside)*</b>	<b>20.3%</b>

Source: Tadawul \*prices as of 15<sup>th</sup> of October 2023

**Key Financials**

SARmn (unless specified)	FY22	FY23E	FY24E	FY25E
Revenue	9,392	10,495	10,769	11,351
Growth %	3.3%	11.7%	2.6%	5.4%
Net Profit	970	968	1,028	1,095
Growth %	-2.2%	-0.2%	6.2%	6.6%
EPS* (SAR)	0.81	0.81	0.86	0.91

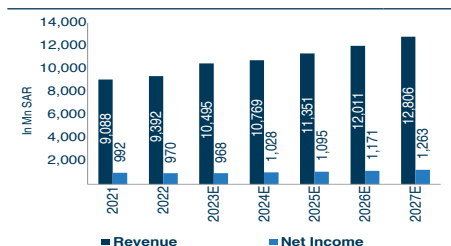
Source: Company reports, Aljazira Capital

**Key Ratios**

	FY22	FY23E	FY24E	FY25E
Gross Margin	13.7%	12.4%	12.6%	12.7%
Net Margin	10.3%	9.2%	9.5%	9.6%
P/E (x)	18.5	18.6	17.5	16.4
P/B (x)	10.0	9.5	9.0	8.5
EV/EBITDA (x)	15.3	14.7	13.8	15.3
Dividend Yield	5.1%	4.9%	5.2%	5.5%

Source: Company reports, Aljazira Capital

**Financial Performance**



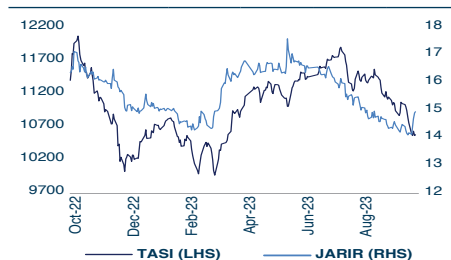
Source: Company reports, Aljazira Capital

**Key Market Data**

Market Cap (SAR bn)	17.9
YTD%	-0.3%
52 weeks (High)/(Low)	17.6/14.0
Share Outstanding (mn)	1200.0

Source: Company reports, Aljazira Capital

**Price Performance**



Source: Bloomberg, Aljazira Capital

Fahad Qureshi, CFA  
 +966 11 2256315  
 f.iran@aljaziracapital.com.sa

**Buy now pay later installment method boosted sales, however materially contracted margins in 1H-23:** 'Tamara' (buy now pay later installment payment method), new website and application, focus on developing/improving customer experience by shortening the time to process customers' online requests, and growth in same day deliveries has enabled the company to grow e-commerce sales to 21% of total sales. BNPL has boosted topline growth, however, these sales have much lower margins, that nullify the impact of increase in revenue. The aforementioned phenomenon was apparent in the 1H-23 when sales growth came in at 19.9% Y/Y, while gross margins contracted by 242bps Y/Y to 10.9%, and gross profits declined by 180bps Y/Y. In 3Q-23 gross margins witnessed a major recovery (up 473bps Q/Q), however sales grew by just 4.8% Y/Y (as compared to 18.8/21.2% Y/Y increase in 1Q-23/2Q-23 respectively), we believe this is attributable to lower BNPL sales.

**AJC view and valuation:** Jarir's 3Q-23 result was higher than our expectation. Lower than expected sales were offset by much stronger than estimated gross margins and lower selling and distribution expenses. We forecast sales to grow at 2022-25 CAGR of 6.5%, our view is premised on kingdoms large young population (63% of Saudi's are under age 30 - median age of population is 29), high per capita income (GDP per capita USD 59,065) and Jarir's store expansions (management has guided opening 4-5 stores per year). Moreover, we expect Jarir to post medium term (2022-25) earnings CAGR of 4.1%. Our view on Jarir is supported by the company's expansion plans, healthy return profile (2024E ROE 51.9%), strong dividend yield (2024E DY 5.2%) and increased consumer spending on electronic products.

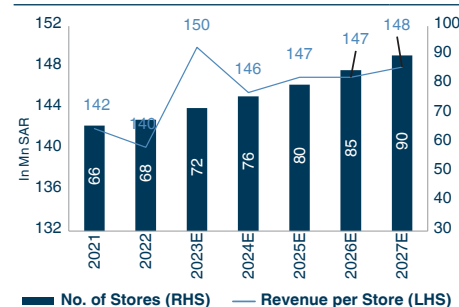
We value Jarir assigning 50% weight to DCF (2.5% terminal growth and 7.7% WACC), while we assign 50% weight to PE (19.0x based on FY24E EPS). We expect the company to post net income of SAR 968/1,028mn in FY23/24 (down/up 0.2/6.2% Y/Y), the company trades at FY24E forward PE of 17.5x. We maintain our **"Overweight"** recommendation on Jarir, with a revised down TP of **SAR 17.9/share**.

**Blended Valuation**

All figures in SAR, unless specified	Fair value	Weights	Weighted average
DCF based value	19.6	50%	9.8
P/E	16.3	50%	8.1
<b>Weighted average 12-month price target</b>			<b>17.9</b>
<b>Expected Capital Gain</b>			<b>20.3%</b>

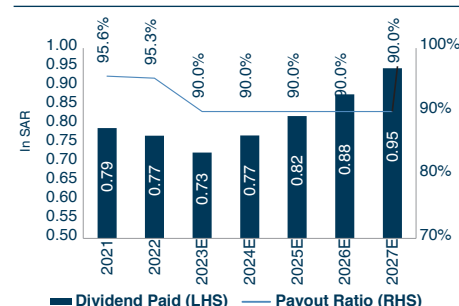
Source: Bloomberg, AlJazira capital \*prices as of 15<sup>th</sup> of October 2023

**Revenue and Revenue per store**



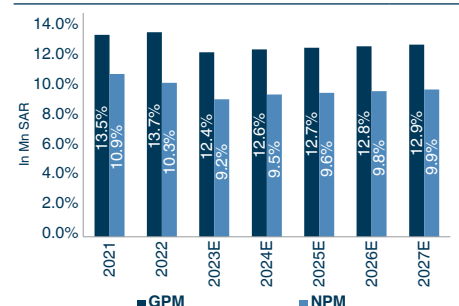
Source: Bloomberg, AlJazira Capital

**Dividend and payout ratio**



Source: Company reports, AlJazira capital

**Gross and net margins**



Source: Company reports, AlJazira capital

### Key Financial Table

Amount in SAR mn, unless otherwise specified	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
<b>Income statement</b>								
Revenues	8,425	9,305.8	9,088	9,392	10,495	10,769	11,351	12,011
Y/Y	<b>14.4%</b>	<b>10.5%</b>	<b>-2.3%</b>	<b>3.3%</b>	<b>11.7%</b>	<b>2.6%</b>	<b>5.4%</b>	<b>5.8%</b>
Cost of Sales	(7,151)	(7,977)	(7,859)	(8,104)	(9,198)	(9,416)	(9,914)	(10,478)
<b>Gross profit</b>	<b>1,273</b>	<b>1,329</b>	<b>1,229</b>	<b>1,287</b>	<b>1,297</b>	<b>1,353</b>	<b>1,437</b>	<b>1,533</b>
General and Administrative exp	(119)	(148)	(127)	(132)	(127)	(123)	(129)	(137)
Selling and marketing expenses	(133)	(128)	(141)	(194)	(182)	(178)	(188)	(199)
Other income	49	48	100	57	54	54	57	60
<b>Operating profit</b>	<b>1,071</b>	<b>1,101</b>	<b>1,061</b>	<b>1,019</b>	<b>1,043</b>	<b>1,106</b>	<b>1,177</b>	<b>1,257</b>
Y/Y	<b>9.5%</b>	<b>2.8%</b>	<b>-3.6%</b>	<b>-4.0%</b>	<b>2.4%</b>	<b>6.0%</b>	<b>6.4%</b>	<b>6.9%</b>
Financial charges	(61)	(48)	(42)	(41)	(47)	(48)	(49)	(51)
<b>Profit before zakat</b>	<b>1,010</b>	<b>1,052</b>	<b>1,019</b>	<b>978</b>	<b>996</b>	<b>1,058</b>	<b>1,127</b>	<b>1,206</b>
Zakat	(25)	(49)	(27)	(8)	(28)	(30)	(32)	(34)
<b>Net income</b>	<b>984.7</b>	<b>1,003.0</b>	<b>992</b>	<b>970</b>	<b>968</b>	<b>1,028</b>	<b>1,095</b>	<b>1,171</b>
Y/Y	<b>2.6%</b>	<b>1.9%</b>	<b>-1.1%</b>	<b>-2.2%</b>	<b>-0.2%</b>	<b>6.2%</b>	<b>6.6%</b>	<b>7.0%</b>
<b>EPS (SAR)</b>	<b>8.21</b>	<b>8.36</b>	<b>8.27</b>	<b>0.81</b>	<b>0.81</b>	<b>0.86</b>	<b>0.91</b>	<b>0.98</b>
<b>Balance sheet</b>								
<b>Assets</b>								
Cash & bank balance	29	97	432	526	634	634	707	774
Other current assets	1,760	1,743	1,636	1,808	1,985	2,014	2,106	2,227
Property & Equipment	1,102	1,125	1,083	1,015	1,064	1,118	1,182	1,260
Other non-current assets	1,110	1,034	961	908	907	921	924	915
<b>Total assets</b>	<b>4,002</b>	<b>3,999</b>	<b>4,112</b>	<b>4,257</b>	<b>4,590</b>	<b>4,687</b>	<b>4,919</b>	<b>5,176</b>
<b>Liabilities &amp; owners' equity</b>								
Total current liabilities	1,551	1,515	1,633	1,696	1,911	1,887	1,986	2,098
Total non-current liabilities	805	759	711	760	780	799	823	850
Paid -up capital	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Statutory reserves	194	295	394	394	588	690	690	690
Other reserve	(66.6)	(64.2)	(64.9)	(93.8)	(93.8)	(93.8)	(93.8)	(93.8)
Retained earnings	317	295	240	301	204	204	314	431
Total owners' equity	1,645	1,725	1,769	1,802	1,898	2,001	2,111	2,228
<b>Total equity &amp; liabilities</b>	<b>4,002</b>	<b>3,999</b>	<b>4,112</b>	<b>4,257</b>	<b>4,590</b>	<b>4,687</b>	<b>4,919</b>	<b>5,176</b>
<b>Cashflow statement</b>								
Operating activities	973	1,397	1,428	999	1,188	1,176	1,325	1,411
Investing activities	(105)	(94)	24	122	(264)	(275)	(295)	(324)
Financing activities	(984)	(1,235)	(1,116)	(1,027)	(816)	(901)	(957)	(1,020)
Change in cash	(116)	67	336	94	108	0	73	67
<b>Ending cash balance</b>	<b>29</b>	<b>97</b>	<b>432</b>	<b>526</b>	<b>634</b>	<b>634</b>	<b>707</b>	<b>774</b>
<b>Key fundamental ratios</b>								
<b>Liquidity ratios</b>								
Current ratio (x)	1.2	1.2	1.3	1.4	1.4	1.4	1.4	1.4
Quick ratio (x)	0.3	0.4	0.5	0.6	0.6	0.6	0.6	0.6
<b>Profitability ratios</b>								
GP Margin	15.1%	14.3%	13.5%	13.7%	12.4%	12.6%	12.7%	12.8%
Operating Margins	12.7%	11.8%	11.7%	10.8%	9.9%	10.3%	10.4%	10.5%
EBITDA margin	14.4%	13.5%	13.4%	12.6%	11.7%	12.2%	10.4%	10.5%
Net Margins	11.7%	10.8%	10.9%	10.3%	9.2%	9.5%	9.6%	9.8%
Return on assets	27.3%	25.1%	24.5%	23.2%	21.9%	22.2%	22.8%	23.2%
Return on equity	66.4%	58.1%	56.9%	54.8%	52.9%	51.9%	53.1%	53.9%
<b>Market/valuation ratios</b>								
EV/sales (x)	2.5	2.3	2.6	1.9	1.7	1.7	1.6	1.5
EV/EBITDA (x)	17.2	17.1	19.6	15.3	14.7	13.8	15.3	14.3
EPS (SAR)	8.2	8.4	8.3	0.8	0.8	0.9	0.9	1.0
BVPS (SAR)	13.7	14.4	14.7	1.5	1.6	1.7	1.8	1.9
Market price (SAR)*	165.6	173.4	196.8	15.0	15.0	15.0	15.0	15.0
Market-Cap (SAR mn)	19,872.0	20,808.0	23,616.0	17,952.0	17,952.0	17,952.0	17,952.0	17,952.0
Dividend yield	4.9%	4.4%	4.0%	5.1%	4.9%	5.2%	5.5%	5.9%
P/E ratio (x)	20.2	20.7	23.8	18.5	18.6	17.5	16.4	15.3
P/BV ratio (x)	12.1	12.1	13.3	10.0	9.5	9.0	8.5	8.1

Source: Company reports, AlJazira capital



RESEARCH DIVISION

Head of Sell-Side Research - AGM  
Jassim Al-Jubran  
+966 11 2256248  
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

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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