Jarir Marketing Company

Retail – Industrial
JARIR AB: Saudi Arabia
29 August 2021

الراجحي المالية
Al Rajhi Capital

US$6.60bn	87%	US$7.96mn
Market cap	Free float	Avg. daily volume

Target price	218.0	6.0% over current
Current price	206.0	as at 26/8/2021

Existing rating

Underweight	Neutral	Overweight

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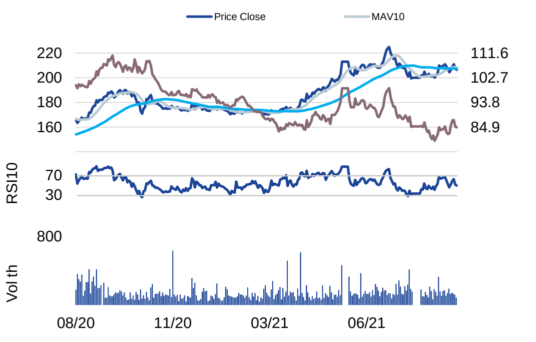
Performance



Source: Bloomberg

Earnings

	2020A	2021E	2022E
Revenue	9,306	9,640	10,445
Revenue growth	26%	4%	8%
Gross Profit	1,329	1,369	1,508
Gross Profit Margin	14%	14%	14%
EBITDA	1,258	1,310	1,455
EBITDA Margin	14%	14%	14%
Net Profit	1,003	1,096	1,227
Net Profit Margin	11%	11%	12%
EPS	8.36	9.14	10.22
EPS Growth	2%	9%	12%
DPS	8	9	10
Payout Ratio	92%	95%	95%
ROE	60%	62%	67%

Source: Company data, Al Rajhi Capital

Jarir Marketing

Back to School a positive catalyst

Jarir's Q2 2021 net income of SAR189mn missed our estimates of SAR225mn. The company reported a 15% y-o-y decline in top-line compared to a high base in Q2 2020. Last year similar quarter was positively impacted due to pre vat buying and huge demand for computers, laptops and other work from home devices. Despite a double-digit fall in top-line, the net income declined only 9% y-o-y as SG&A reduced (in Q2 2020 SG&A increased due to one off donation to health endowment fund) while other income increased. The schools have resumed from 29th August 2021 although with restrictions, this should drive the stationary sales for Jarir. We expect this to have a positive impact on Jarir's Q3 2021 revenue and gross margins as stationary has higher margins compared to electronics. We are optimistic on Jarir as we expect business to normalize with back-to-school sales picking up and store expansion plans to drive the revenue. We slightly reduce our 2021e and 2022e top line growth forecast (6%/10% earlier) and reduce our tp to SAR218/sh (earlier SAR231/sh) and change our rating to "Neutral".

Figure 1 Jarir 2Q 2021 earnings summary

(SAR mn)	2Q 2021	2Q 2020	Y-o-Y	1Q 2021	Q-o-Q	ARC est	vs ARC
Revenue	2,015	2,374	-15%	2,530	-20%	2,469	-18%
Gross profit	262	304	-14%	338	-22%	308	-15%
Gross margin	13%	13%		13%		12%	
Operating profit	206	227	-9%	286	-28%	243	-15%
Operating margin	10%	10%		11%		10%	
Net profit	189	208	-9%	268	-29%	225	-16%
Net margin	9%	9%		11%		9%	

Source: Company data, Al Rajhi Capital

- **Revenues:** Top-line declined 15% y-o-y to SAR2.015bn mainly on a high base last year. Q2 2020 witnessed huge surge due to pre-vat buying and huge demand for computers, laptops, etc. Revenue from retail outlets increased 6% y-o-y to SAR4.087bn, wholesales revenue declined 44% y-o-y to SAR68mn, ecommerce revenue declined ~49% y-o-y to SAR343mn and other segments revenue dropped 35% y-o-y to SAR48mn.

- **EBITDA:** EBITDA declined ~5.3% to SAR286mn despite a double digit drop in revenue mainly because SG&A in last year same period was inflated by SAR25mn due to one off donations, normalized SG&A increased by 10% y-o-y to SAR66mn (in Q2 2020 after adjusting for donations the SG&A was SAR60mn).

- **Net profit:** The net income declined 9% y-o-y to SAR189mn on a low base as Q2 2020 net income was affected due to one off donation as explained above. After adjusting for the impact of 25mn donation, the decline would be ~19% y-o-y in Q2 2021.

- **Valuation:** We value Jarir using equal weight given to DCF and PE based relative valuation. Our DCF tp based on 2.5% terminal growth and 8.79% WACC is SAR217/sh while PE based relative valuation based on 24x FY 2022e is SAR219/Sh thus equal weighted tp stands at SAR218/sh which implies 6% upside from CMP of SAR206/sh. We downgrade Jarir to "Neutral".

Key downside risks to our valuation includes:

1) Any further restrictions affecting the footfalls in the store will have an adverse impact on the company's revenue and our valuation.

2) Schools have reopened but with certain restrictions, if the schooling goes back to online mode then school season sale might remain impacted and will have an adverse impact on company's revenue and valuation.

3) Any general slowdown in consumer spending due to drop in oil prices or other avenues of entertainment will affect the company's revenue and our valuation.

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

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