

Rating **Neutral**  
12- Month Target Price **SAR 167.00**

**JARIR MARKETING COMPANY (JARIR)**  
1Q2019 First Look

#### Expected Total Return

Price as on April-21, 2019	SAR 177.80
Upside to Target Price	(6.1%)
Expected Dividend Yield	4.6%
Expected Total Return	(1.5%)

#### Market Data

52 Week H/L	SAR 179.60/124.54
Market Capitalization	SAR 21,336 mln
Shares Outstanding	120 mln
Free Float	74.5%
12-Month ADTV	119,982
Bloomberg Code	JARIR AB

#### 1-Year Price Performance



Source: Bloomberg

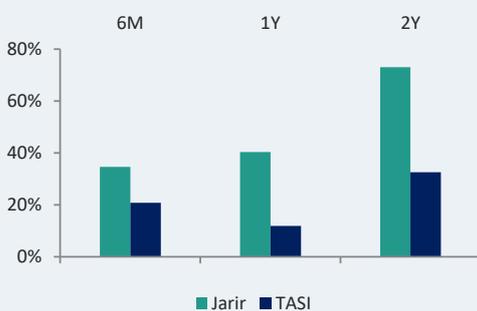


Fig in SAR mln	RC Est.	Actuals
Sales	1,727	1,887
Gross Profit	261	302
Net Income	225	234
EPS (SAR)	1.87	1.95

## Sales Momentum Intact

Jarir reported 1Q bottomline in line with our expectations. Net income of SAR 234 million (EPS SAR 1.95) was just 3.7% higher than our SAR 225 million (EPS SAR 1.87) forecast. Revenues have increased by +18% Y/Y to SAR 1.89 billion as smartphone and computer sales continued to post good growth. This is a continuation of consolidation into more established retailers. The Company managed to open one more store within KSA in 1Q taking the total store strength to 56. Gross margins have unexpectedly expanded to 16% in the quarter versus 15.2% last year. We believe this has more to do with IFRS related reclassification of costs rather than improvement in product margins. We tweak our assumptions on revenue growth and profitability. As a result, our target price has risen from SAR 153.00 to SAR 167.00. Trading at 19.5x 2019E earnings, we continue to recommend a Neutral.

### Revenues grow +18% Y/Y

Topline has recorded an impressive +18% Y/Y growth to SAR 1.89 billion. Jarir continues to benefit from rising smartphone and computer sales as the industry is consolidating into bigger retailers who offer better service and competitive prices. Revenues are down -12% Q/Q as Jarir's sales are cyclical and not generally comparable on a Q/Q basis. Further, there were new smartphone launches in 4Q2018, which boosted sales. After opening 5 stores in 2018, the Company managed to add one more store in KSA to its tally taking the total number of stores to 56 across its network in KSA and the region. Besides brick and mortar, Jarir has been exerting concerted efforts at online sales, which although small right now, has great potential.

### Higher gross margins likely due to IFRS related changes

One surprising element of the result has been an expansion in gross margins to 16.0% for the quarter versus 15.2% last year and 15.1% in the preceding quarter. Management commentary has pointed to reallocation of expenses; rental expenses have been replaced with depreciation with the implementation of IFRS 16 from January 1<sup>st</sup>. In addition, some of the costs have shifted from the gross level to finance costs. Thus, this rise in gross margins is likely due to IFRS related changes rather than expanding product margins or a better mix. Gross profit is also +25% higher Y/Y settling at SAR 302 million.

### Target price rises to SAR 167

Net profit of SAR 234 million (+7% Y/Y) was inline with our forecast of SAR 225 million led primarily by +18% Y/Y growth in revenues. Net margins have declined to 12.4% versus 13.7% last year and below 13.0% in 4Q2018 on higher operating costs. We have increased our revenue and profit forecasts going forward as Jarir is benefitting from consolidation and organic growth through more stores. We now expect 2019 net income at just over SAR 1 billion. Our target price has now gone up to SAR 167.00 from SAR 153.00 previously. Trading at a 2019E P/E of 19.5x, the stock is at a premium to TASI's P/E of 16.8x, which has historically been the case. We recommend a Neutral stance.

#### Key Financial Figures

FY Dec31 (SAR mln)	2018A	2019E	2020E
Revenue	7,362	8,098	8,908
EBITDA	1,023	1,156	1,278
Net Profit	960	1,090	1,213
EPS (SAR)	8.00	9.08	10.11
DPS (SAR)	7.26	8.20	9.10

#### Key Financial Ratios

FY Dec31	2018A	2019E	2020E
BVPS (SAR)	14.16	15.44	16.22
ROAE	57.7%	61.4%	63.1%
ROAA	31.5%	34.1%	35.8%
EV/EBITDA	22.2x	18.3x	16.6x
P/E	22.1x	19.5x	17.5x

## Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

\* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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