

Jarir Marketing Company

Decline in net profit due to higher discounting

2Q22 Net Profit lower than our estimate

Jarir Marketing Company reported a decrease in net profit to SAR 177 Mn in 2Q22 from SAR 189 Mn in 2Q21, missing our estimate of SAR 246 Mn. The decrease in profit was due to a marginal drop in sales but decline in profit was exacerbated by a decline in gross margin discount offered by the company to boost smartphones sales.

P&L highlights

Revenue declined marginally 0.2% YOY to SAR 2,010.5 Mn in 2Q22 due to decline in sales of computers, computer supplies, smartphones and related accessories. While cost of sales rose 0.5% YOY to SAR 1,762 Mn in 2Q22 due to discount offered to customers to boost smartphone sells. Thus, gross profit fell 5.1% YOY to SAR 249 Mn in 2Q22. Gross margin also declined from 13.0% in 2Q21 to 12.4% in 2Q22. Total opex declined from SAR 66 Mn in 2Q21 to SAR 57 Mn in 2Q22. While selling and marketing expense increased in 2Q22 compared to 2Q21 due to increase in expense to support sales. The company also recorded a capital gain from sale of SAR 10 Mn property in the Raka district of Khobar. Operating profit of the company declined 2.1% YOY to SAR 192 Mn in 2Q22.

Balance Sheet highlights

As of 31 March 2022, the company remains debt free. Total lease liabilities stood at SAR 687 Mn in 1Q22. Cash and cash equivalents stood at SAR 234 Mn in 1Q22. Jarir generated SAR 65.0 Mn in cash flow from operations in 1Q22 compared to SAR 62.7 Mn in 1Q21 due to decline in working capital.

Target price and rating

We assign a BUY rating on Jarir Marketing Co. with a revised target price of SAR 175.0. Jarir share price corrected 27.3% since beginning of 2022. The company revenue declined 5.5% YOY to SAR 4,297.4 Mn in 1H22 due to decline in sales across all segments namely, school stationery, smartphones, accessories, computer supplies. It also recorded a decline in profitability and margins due to discounts offered to customers to stimulate sales. The company is using a variety of marketing techniques to boost sales in its E-commerce division, which will enable them to grow their online sales. In addition, Jarir also plans to open seven new showrooms in 2022. It plans to increase product offering of supplies for government and private sector from 100 items to 280 items which will help in new winning contracts. The company is already underway to conclude a contract with Al Rajhi. Jarir also expects shortage of electronic products to ease from August 2022 which will increase

Rating : BUY

First Look Note – 2Q22

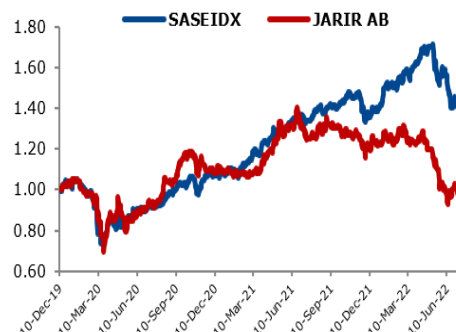
Sector: Consumer Discretionary

Recommendation

Current Price (19-July-22)	143.60
Target Price	175.00
Upside/Downside (%)	+22%

Stock Information

Market Cap (mm)	17,232.00
Paid Up Capital (mm)	1,200.00
52 Week High	216.60
52 Week Low	141.60
3M Avg. daily value (AED)	43,561,760



Financial Ratios

Dividend Yield (12m)	5.19
Dividend Pay-out (%)	95.58
Price-Earnings Ratio (x)	17.67
Price-to-Book Ratio (x)	9.70
Book Value (AED)	14.80
Return-on Equity (%)	55.96
Earning Per Share (AED)	8.13
Beta	0.77

Stock Performance

5 Days	-6.27%
1 Months	-9.00%
3 Months	-27.98%
6 Months	-28.27%
1 Year	-28.20%
Month to Date (MTD)	-11.69%
Quarter to Date (QTD)	-11.69%
Year to Date (YTD)	-27.03%

product offering and further help in growing sales during 2022. It entered into partnership agreement with several local banks to offer financial solution to pay for purchases in easy installments. These initiatives would help Jarir in growing sales during 2022. The company also adopted a new strategy of sacrificing margin to gain market share and seek to negotiate competitive prices of supplies from suppliers. It will continue to adopt this strategy for expansion in Saudi Arabia, Kuwait, the UAE, and Bahrain, and other countries. Based on 2022 financial, Jarir is trading at an attractive dividend yield of 5.5% compared to sector average of 4.2%. Considering all these factors, we assign a BUY rating on the stock.

Jarir - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
PE(X)	18.0	17.5	17.2	17.4	17.9
PB(X)	10.2	10.5	10.0	9.8	9.7
EV/EBITDA	17.9	15.1	14.3	15.1	14.8
Dividend yield	6.3%	5.7%	5.3%	5.5%	5.5%

FABS Estimates & Co Data

Jarir - P&L

SAR mm	2Q21	1Q22	2Q22A	2Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
Sales	2,015	2,287	2,011	2,299	-12.5%	-0.2%	-12.1%	9,088	9,132	0.5%
Cost of Sales	-1,753	-1,962	-1,762	-1,977	-10.9%	0.5%	-10.2%	-7,859	-7,872	0.2%
Gross profit	262	325	249	322	-22.8%	-5.1%	-23.5%	1,229	1,260	2.5%
Total opex	-66	-67	-57	-69	-18.0%	-14.0%	-15.1%	-268	-268	-0.2%
Operating profit	196	258	192	253	-24.1%	-2.1%	-25.7%	961	993	3.3%
Zakat	-5	-7	-15	-7	112.2%	182.6%	110.9%	-27	-35	27.4%
Net Profit	189	251	177	246	-28.1%	-6.4%	-29.5%	992	966	-2.6%

FABS estimate & Co Data

Jarir -Margins

	2Q21	1Q22	2Q22A	YOY ch	QOQ ch	2021	2022F	Change
Gross profit margin	13.0%	14.2%	12.4%	-64	-185	13.5%	13.8%	27
Operating profit margin	9.7%	11.3%	9.5%	-18	-175	10.6%	10.9%	29
Net Margin	9.4%	11.0%	8.8%	-58	-218	10.9%	10.6%	-34

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

FAB Securities Contacts:
Research Analysts

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office
Trading Desk +971-2-6161700/1 [Online Trading Link](#)
 +971-2-6161777
Institutional Desk +971-4-4245765
Sales and Marketing +971-2-6161703

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