



US\$6.08bn Market cap
87% Free float
US\$8.09mn Avg. daily volume

Target price **180.0** -4% over current
Current price **188.0** as at 12/10/2020

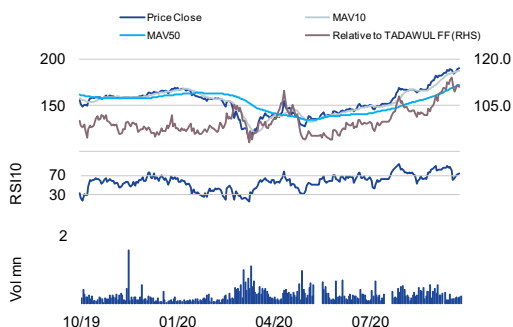
Research Department
Pratik Khandelwal

Tel ++966 11 836 5486, pratikK@alrajhi-capital.com

Existing rating

Underweight **Neutral** **Overweight**

Performance



Earnings

	2019A	2020E	2021E
Revenue	8,425	9,243	9,954
Revenue growth	14%	10%	8%
EBITDA	1,167	1,296	1,433
EBITDA Growth	20%	11%	11%
EPS	8.21	9.49	10.59
EPS Growth	2.60%	16%	12%
DPS	7.76	8.97	10.01
Payout Ratio	95%	95%	95%
ROE	59%	68%	73%

Source: Company data, Al Rajhi Capital

Jarir Marketing

Beat earnings despite revenue miss; Remain Neutral

Jarir's Q3 2020 net profit of SAR255mn (-16% y-o-y) beat our estimates of SAR225mn by 12%. The top-line came in at SAR2.038bn (-9% y-o-y) below our estimates of SAR2.142bn. The revenue was impacted by both retail as well as wholesale segment as the demand for stationery and office supplies were subdued. The reason for low demand could be the online mode of schooling and an increase in VAT in our view. The mobile phone sales also took a breather likely due to the delayed launch of the new iPhone as well as pre vat buying in Q2 2020. Accordingly, the gross margins dropped 87bps to 16.42% in Q3 2020 v/s Q3 2019. The operating expenses remained almost flat at SAR60mn. We expect stationary sales to pick up gradually next quarter. Moreover, the new iPhone launch in October should also drive the smartphone segment sales. The company is investing in warehouse and logistics to support its e-commerce; this should benefit the company in the long run. Going forward the store expansion plan as well as increasing penetration of online sales should drive the company's revenue. We revise our forecast and raise the tp to SAR180/sh from SAR165/sh but remain "Neutral" on Jarir.

Figure 1 Fig 1

(SAR mn)	Q3 2019	Q2 2020	Q3 2020	%chg y-o-y	%chg q-o-q	ARC Estimate
Revenue	2,251	2,374	2,038	-9.5%	-14%	2,142
Gross Profit	389	304	335	-14.0%	10%	321
Gross Margin	17.3%	12.8%	16.4%	NA	NA	15.0%
Operating Profit	329	227	275	-16.5%	21%	244
Net Profit	305	208	255	-16.3%	22%	225

Source: Company data, Al Rajhi Capital

Valuation and Key Risks: We value Jarir using DCF based and PE-based relative valuation. Our DCF based target price based on 2.5% terminal growth and 9.73% WACC is SAR171/sh, relative valuation based on 20x 2021 EPS (discounted to PV) is SAR189/sh thus equal-weighted tp stands at SAR180/sh which implies ~-4% downside from CMP of SAR188/sh. We remain "Neutral" on Jarir.

Key Upside risks to our valuation include:

- 1) Faster than expected recovery of the overall economy.
- 2) Improving sales mix with a larger contribution of high-margin products will have a positive impact on the gross margins and profitability and will have upside risk to our valuation.

Key Downside risks to our valuation include:

- 1) Significant reduction in consumer spending compared to our expectations will have a negative pressure on the 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.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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Contact us

Mazen AlSudairi
Head of Research
Tel : +966 11 838 5468
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

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