


Initiation Coverage
April 16, 2018

Recommendation	Neutral
Current Price (SAR)	172.2
Target Price (SAR)	164.3
Upside/Downside (%)	(4.6%)
<i>As of April 12, 2018</i>	
Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	15.5
52 Wk High (SAR)	193.00
52 Wk Low (SAR)	125.25
Total Outstanding shares (in mn)	90.0
Free Float (%)	95.7%

JARIR Vs TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	-5.3%	-5.8%
6m	19.3%	7.4%
12m	38.6%	28.4%

Major Shareholders (%)

Mohammed Abdulrahman Nasser Al - Aqeel	8.84%
Abdullah Abdul Rahman Nasser Al - Aqeel	8.61%
Abdul Nasser Al - Aqeel	8.60%

Quarterly Sales (SAR mn) and Operating Margin


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 12th April, 2018

Jarir Marketing Co. (Jarir) reported 18.2% YoY growth in its FY 2017 net profit to SAR 868mn, driven by higher sales as consumers increased spending before VAT implementation. A rise in the number of outlets and robust performance from the wholesale segment also contributed to strong results. The increase in salary expenses was offset by increased selling prices. However, the company's bottom line declined 1.04% YoY to SAR 219mn in Q1 2018, due to weak performance in the wholesale business and a marginal drop in certain retail segments. The operating income for the quarter came in at SAR 210mn, while total revenues stood at SAR 1,599mn (down 6.2% YoY).

Strong financials, market share expansion, economic recovery after the oil price slump, and population growth are the key positives for the company. However, considering the effect of VAT, expat levy, and subsidy removal on customers' purchasing power, we maintain a "neutral" stance on the company, with a target price of SAR 164.3 per share.

Sales growth to moderate on VAT implementation, lacklustre consumer spending

Jarir is expected to record single-digit sales growth in 2018 after its top line grew 13.4% YoY in 2017, driven by the implementation of 5% VAT on goods and services. The company's management expects the pace of sales growth to decelerate owing to a large base, as Jarir has acquired market share from smaller rivals in 2017 who have struggled to absorb the financial pressures from Saudization initiative. The company's market share has increased to 20% (2016: 15%) in the electronics retail segment in 2017. In addition, the removal of subsidies and expat levy will have an adverse impact on customers' purchasing power. This was reflected in the company's Q1 2018 results where revenues slumped 6.2% YoY to SAR 1,599mn. Going forward, we expect the company's top line to expand at a CAGR of 5.6% (2017–21).

Expansion plan remains on track

Jarir added three KSA retail outlets and two international retail outlets to its portfolio in 2017, thereby taking the total number of retail outlets to 50. In 2018, the company expects to add six to seven more stores to its existing portfolio. This is in line with the company's strategy to become a leading retailer in the Gulf region. Jarir is also planning to expand its footprint beyond the Gulf region and conducting a feasibility study for doing business in Egypt.

Attractive RoE, consistent dividend pay outs bode well for investors

Jarir's RoE increased 4.5ppt to 53.4% in 2017 on higher net income. Despite a 19.6% YoY increase in general and administrative expenses in 2017 due to Saudization, Jarir's net income grew, as it was able to capitalize on higher costs by raising its sales prices. In addition, the company has been consistent in dividend pay outs and maintained an average payout ratio of more than 80% over the last five years. Minimal gearing and low capex imply that the dividend policy is likely to remain intact. Hence, we believe that Jarir offers an attractive investment opportunity for income-seeking investors.

Emergence of online retail to hurt Jarir's brick-and-mortar business model

With the expected increase in the penetration of online retail in Saudi Arabia, Jarir's top line could be affected unless it plans to promote its online sales which constituted merely 1.4% of the total sales in 2017. Online retailers are offering competitive prices and shorter delivery times, thereby diminishing the value of brick-and-mortar business model.

Valuation: We valued Jarir using the DCF Approach to arrive at a fair value of SAR 164.3 per share. We considered WACC at 8.5%, with a terminal growth rate of 2.0%.

	2017	2018E	2019E	2020E
Revenues (SAR bn)	6.9	7.2	7.8	8.2
Operating Profit (SAR bn)	0.8	0.9	1.0	1.0
EPS (SAR)	9.6	10.1	10.9	11.5
Operating Margin (%)	12.0%	12.2%	12.2%	12.0%
D/E (x)	0.1	0.0	0.0	0.0
RoE (%)	53.4%	50.3%	49.1%	46.7%
P/E (x)	15.2	17.0	15.8	15.0
Price/BV (x)	8.1	8.6	7.7	7.0
EV/EBITDA (x)	14.8	16.3	15.0	14.2

Source: Company Financials, FALCOM Research



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Valuation Summary

Explanation of valuation methodology and assumptions

We valued Jarir using the DCF Approach to arrive at a fair value of SAR 164.3 per share. We considered WACC at 8.5% with a terminal growth rate of 2.0%. In relative terms, Jarir is trading at 1yr forward P/E of 17.0x, at a discount of 14.4% to its sector peers and premium of 17.4% to the Tadawul All Share Index.

SAR Mn	FY 2017	FY 2018E	FY 2019E	FY 2020E	FY 2021E
EBIT	835	880	951	988	1,033
Taxes	(7)	(19)	(20)	(21)	(22)
Depreciation, amortization and impairment	49	54	58	64	70
Changes in working capital	(13)	76	60	84	93
Net capital expenditure	(117)	(144)	(156)	(164)	(173)
Free Cash Flow to firm	746	848	893	951	1,002
<i>Discount Factor</i>		0.9	0.9	0.8	0.7
PV of free cash flow to firm		799	776	761	739
Net Present Value (A)					3,076
Terminal Value					15,717
PV Terminal Value (B)					11,604
Assumed Terminal Growth Rate					2.0%
Discount Rate					8.5%
Enterprise Value (A+B)	14,680	WACC Assumptions			
Total Cash	200	Risk free rate	2.6%		
Total Debt	96	Equity Risk Premium	8.3%		
Minority Interest	-	Beta	0.8x		
Equity Value in SAR mn	14,785	Cost of equity	9.0%		
Number of shares in mn	90	Post tax cost of debt	1.1%		
Target Price in SAR per share	164.3	Weight of equity in capital structure	94.5%		
CMP in SAR as on April 12^h, 2018	172.2	Weight of debt in capital structure	5.5%		
Upside/(Downside) to current market price	(4.6%)	WACC	8.5%		

Source: Company Financials, FALCOM Research Estimates

Risks

Upside Risks:

- Higher than expected number of additions in KSA outlets might accelerate revenue growth.
- Higher oil prices might increase customer purchasing power, thereby driving the top line.

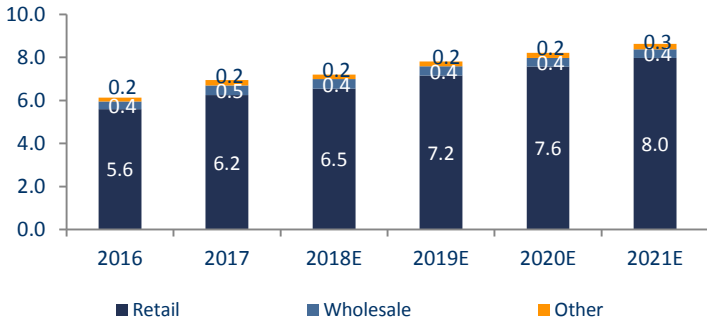
Downside Risks

- Customers might prefer purchasing the big ticket electronics items from neighbouring countries where VAT has not been implemented yet.
- Emergence of online retail will adversely affect Jarir's business.
- Outflow of expats might affect Jarir's top line.

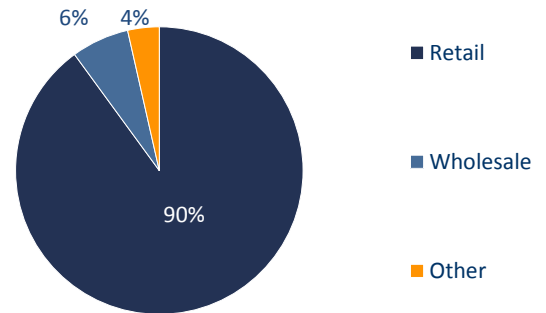


Key Charts

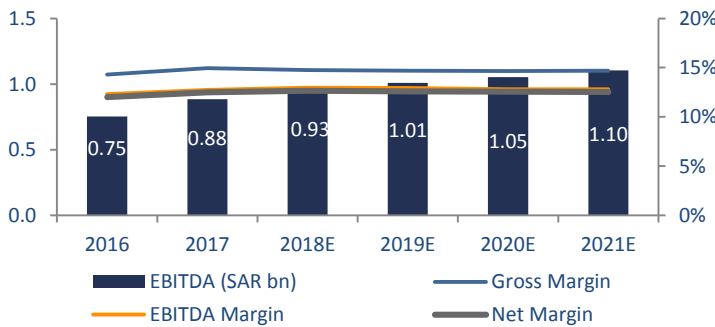
Revenue (SAR bn)



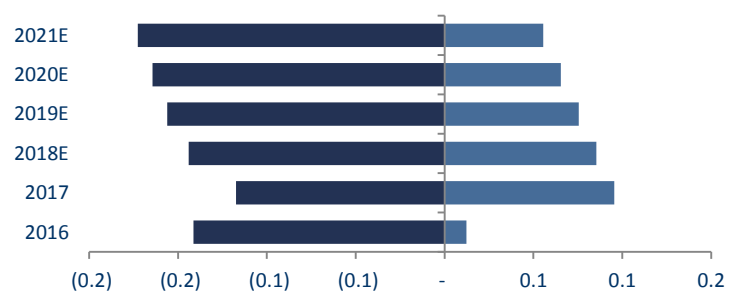
Revenue Split (2017)



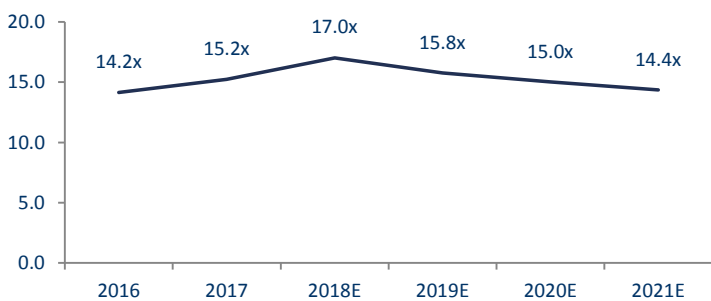
EBITDA & Margins



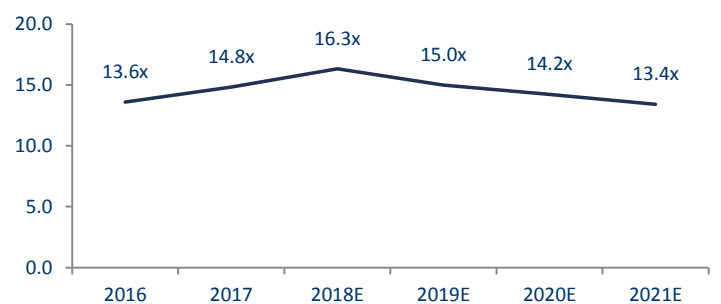
CAPEX and Debt (SAR bn)



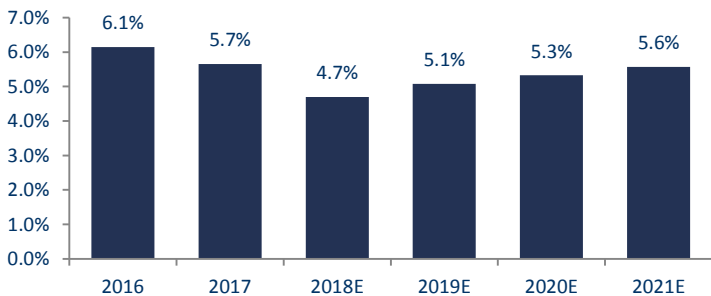
Price to Earnings



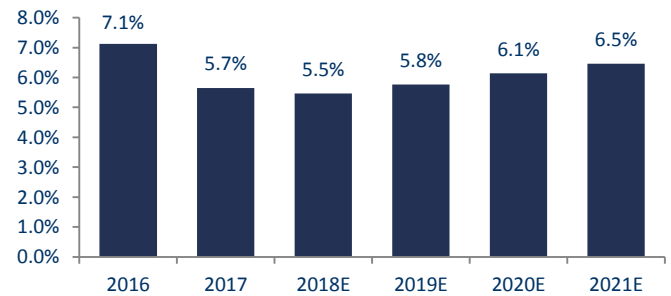
EV/EBITDA



Dividend Yield



Free Cash Flow Yield



Source: FALCOM Research Estimates



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Summary Financials

P&L (SAR mn)	2017	2018E	2019E	2020E
Revenue	6,942	7,200	7,808	8,216
Gross Profit	1,037	1,061	1,147	1,203
EBITDA	884	934	1,009	1,052
EBIT	835	880	951	988
Net Interest	0.9	1.5	1.3	1.1
Other	41	50	54	66
PBT	875	929	1,004	1,053
Zakat	7	19	20	21
Minorities	-	-	-	-
Net Income	868	910	984	1,032
EPS	9.6	10.1	10.9	11.5
DPS	8.3	8.1	8.7	9.2

BS (SAR mn)	2017	2018E	2019E	2020E
Cash and cash equivalents	200	331	452	602
Current Assets (excluding cash)	1,498	1,602	1,753	1,898
Fixed assets	1,076	1,168	1,268	1,370
Intangibles	-	-	-	-
Total Assets	2,877	3,098	3,376	3,651
Current Liabilities	1,103	1,141	1,222	1,291
Long Term Debt	11	11	11	11
Shareholders Equities	1,626	1,808	2,005	2,211
Total Liabilities & Shareholders' Equity	2,877	3,098	3,376	3,651

CF (SAR mn)	2017	2018E	2019E	2020E
Operating Cash Flow	941	963	1,042	1,096
Working Capital Changes	(13)	76	60	84
Cash Flow from Operating Activities	928	1,039	1,102	1,180
Capex	(117)	(144)	(156)	(164)
Cash Flow from Investing Activities	(138)	(170)	(185)	(194)
Changes in Debt	(1)	(10)	(10)	(10)
Dividends	(747)	(728)	(787)	(825)
Cash Flow from Financing Activities	(748)	(738)	(797)	(835)

Source: Bloomberg, Company Financials, FALCOM Research

Growth	2017	2018E	2019E	2020E
Revenue	13.4%	3.7%	8.4%	5.2%
EBITDA	17.3%	5.7%	8.0%	4.3%
Operating profit	17.5%	5.5%	8.0%	3.9%
PBT	17.1%	6.1%	8.1%	4.9%
Net Income	18.2%	4.9%	8.1%	4.9%

Ratios (%)	2017	2018E	2019E	2020E
Gross Margin	14.9%	14.7%	14.7%	14.6%
EBITDA Margin	12.7%	13.0%	12.9%	12.8%
EBIT Margin	12.0%	12.2%	12.2%	12.0%
Net Margin	12.5%	12.6%	12.6%	12.6%
ROE	53.4%	50.3%	49.1%	46.7%
ROCE	47.0%	45.0%	44.2%	41.9%
ROA	30.2%	29.4%	29.1%	28.3%
Debt/Equity	0.1x	0.0x	0.0x	0.0x
Net Debt/EBITDA	(0.1x)	(0.3x)	(0.4x)	(0.5x)
FCF Yield	5.7%	5.5%	5.8%	6.1%
Dividend Yield	5.7%	4.7%	5.1%	5.3%

Valuation	2017	2018E	2019E	2020E
PE	15.2x	17.0x	15.8x	15.0x
PB	8.1x	8.6x	7.7x	7.0x
EV/EBITDA	14.8x	16.3x	15.0x	14.2x
EV/EBIT	15.7x	17.3x	15.9x	15.1x
EV/Sales	1.9x	2.1x	1.9x	1.8x

Peer Valuations	12M Fwd PE	12m Fwd EV/EBITDA
Fawaz Abdulaziz Al Hokair Company	15.7x	9.3x
United Electronics Company	22.4x	16.5x
Saudi Company for Hardware	19.9x	14.6x
Abdullah Al Othaim Marketing	21.4x	14.9x
Saudi Marketing Co.	5.5x	11.8x
Jarir Marketing Co.	17.0x	16.3x
Sector Median	19.9x	14.6x
TASI	14.5x	11.6x



FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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