Jarir Marketing Co.

Consumer Discretionary| Jarir | 4190

INTELLIGENT INVESTMENT IDEAS

2Q 2018 Results Update

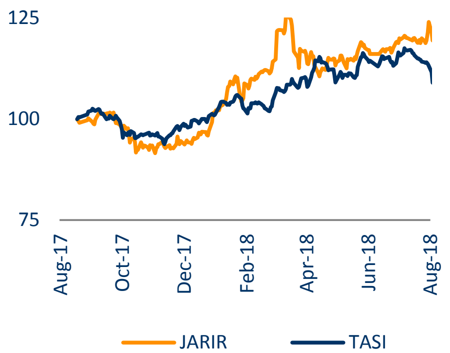
August 27, 2018

Recommendation	**Neutral**
Previous Recommendation	Neutral
Current Price (SAR)	184.2
Target Price (SAR)	186.5
Upside/Downside (%)	1.3%

As of August 26th 2018

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	16.6
52 Wk High (SAR)	193.0
52 Wk Low (SAR)	138.4
Total Outstanding shares (in mn)	90.0
Free Float (%)	95.7%

JARIR vs. TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	1.4%	6.1%
6m	8.8%	2.0%
12m	21.8%	11.4%

Major Shareholders (%)	
Jarir Investment Trading Company	21.0%

Quarterly Sales (SAR bn) and Operating Margin

Source: Bloomberg, Company Financials, FALCOM Research; Data as of 26th August 2018

Jarir's bottom line beats consensus on margin improvements

Jarir Marketing Co. (Jarir) reported a 10.1% YoY rise in net profit to SAR 162mn in 2Q18, much ahead of the consensus estimates. This was largely ascribed to growth in retail sales in the electronics division, which was in turn driven by a rise in the smartphone and video game sections. Additionally, the profit margins of few divisions improved on efficient product management. On a sequential basis, however, net profit declined 25.8%, ascribed to a drop in gross profit due to a change in the sales mix, in spite of higher sales. Also, higher selling and marketing expenses (+317% QoQ) also weighed on net profit. Moreover, with the top line (+6.8% YoY) rebounding in the current quarter, the impact of 5.0% VAT, announced early this year, appears to have been absorbed by consumers.

2Q18 witnessed a lag regarding new store openings, compared with two store openings in the previous quarter (the firm plans to roll out 6–7 stores annually). In May 2018, Jarir announced the establishment of a wholly owned subsidiary in Bahrain. We believe the announcement is largely in line with Jarir's near-term expansion plans.

- Jarir's top line grew 6.8% YoY and 5.9% QoQ to SAR 1,693mn in 2Q18, led by higher sales from the electronics division, attributable to higher smartphone and video game sales.
- The gross profit rose 10.3% YoY to SAR 213mn on higher sales in the electronics division and improved margins as a result of better product management. Consequently, gross margins increased from 39.1bps YoY to 12.6% in 2Q18. However, on a sequential basis, gross profit declined 12.4%, with the gross margin falling 262bps, ascribed to change in the sales mix.
- The positive impact of top-line growth and improved margins was evident at operating profit levels as well, indicated by a 17.4% YoY jump in operating profit. Conversely, operating profit declined 25.5% QoQ, attributed to higher selling and marketing expenses (+317% QoQ).
- Net profit stood at SAR 163mn (+10.1% Y/Y). This was largely in line with growth in gross profit (+10.3% Y/Y), supported by lower SG&A expenses on a YoY basis and improvement in the profit margins of few divisions. Consequently, the net margin expanded 28.1bps to 9.6% in 2Q18, while it declined 409bps QoQ due to the reasons mentioned above.
- Jarir's cash flow from operating activities decreased 52.8% YoY in 2Q18 on the increase in prepayments, accrued expenses, and Zakat payments. On a quarterly basis, cash flow declined 8.3% QoQ to SAR 97mn in 2Q18 (1Q18: SAR 106mn), weighed by an increase in inventories.
- On 8th Aug, 2018, Jarir announced a 33.3% increase in share capital from SAR 900mn to SAR 1200mn offering 1 bonus share for every 3 shares owned. In-line with its attractive dividend policy, the company plans to pay an 18% cash dividend at SAR 1.8 per share for 2Q18.
- We reiterate our stance that Jarir is well-placed to absorb the market share shift to organized retailers, supported by new store rollouts. As major players such as Apple and Samsung launch new models during the July–September period, we expect the electronics segment to perform better in the upcoming quarter. This should translate into better top- and bottom-line growth in the coming quarters. However, the impact on revenues due to purchasing power headwinds and loss of market share to e-commerce players should not be ignored. Amazon's recent entry in the Middle East market with the acquisition of Souq.com is likely to accelerate the expansion of e-commerce in the region. This may pose risk to Jarir's long-term margins.

Valuation: We have revised our target price upwards to SAR 186.5 per share, after incorporating strong 2Q18 performance. The stock price has run up 6.2% since our previous earnings report. We believe that risks-rewards are fairly balanced at the moment and maintain our "Neutral" rating on the stock.

	2Q'18	2Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR bn)	1.7	1.6	6.8%	7.3	6.9	3.7%
Gross Profit (SAR bn)	0.2	0.2	10.3%	1.1	1.0	2.3%
EBITDA (SAR bn)	0.2	0.1	17.3%	0.9	0.9	7.3%
Net Profit (SAR bn)	0.2	0.1	10.1%	0.9	0.9	6.5%
EPS basic (SAR)	1.8	1.6	10.1%	10.3	9.6	6.5%
Gross Margin (%)	12.6%	12.2%	0.4%	14.7%	14.9%	-0.2%
EBITDA Margin (%)	10.1%	9.2%	0.9%	13.2%	12.7%	0.4%
Net Profit Margin (%)	9.6%	9.3%	0.3%	12.8%	12.5%	0.3%

Source: Company Financials, FALCOM Research

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 ≥ 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 ≥ 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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