Jarir Marketing Co.

Consumer Discretionary| Jarir | 4190

INTELLIGENT INVESTMENT IDEAS

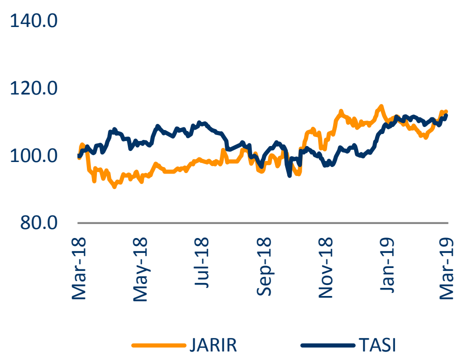
FY 2018 Results Update **March 26, 2019**

Recommendation	**Neutral**
Previous Recommendation	Neutral
Current Price (SAR)	153.4
Target Price (SAR)	160.1
Upside/Downside (%)	4.4%

As of March 25th 2019

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	18.8
52 Wk High (SAR)	159.8
52 Wk Low (SAR)	124.5
Total Outstanding shares (in mn)	120.0
Free Float (%)	74.5%

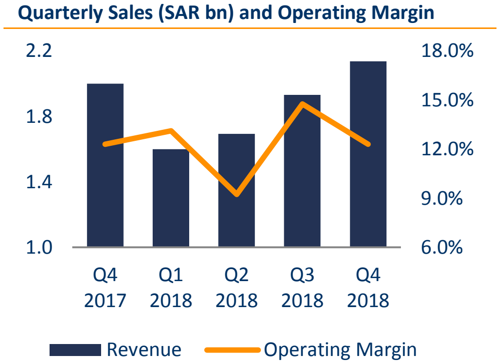
JARIR vs. TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	5.2%	4.3%
6m	18.1%	4.9%
12m	13.1%	1.2%

Major Shareholders (%)	
Jarir Investment Trading Company	21.0%

Quarterly Sales (SAR bn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 18thMarch 2019

Robust sales and expanding annual margins improve Jarir's bottom line

Jarir Marketing Co. (Jarir)'s FY18 net profit increased 10.6% YoY to SAR 960mn, beating the consensus estimate. The growth was driven by higher sales and margin improvement. Sales growth was largely driven by the electronics segment, which was in turn driven by a rise in the smartphone and video game sections. Additionally, an increase in the number of showrooms to 55 in FY18 from 50 in FY17 partially contributed to higher retail sales. For 4Q18, net profit rose 15.2% YoY driven by growing revenue and increase in other income.

During the quarter, Jarir opened two new stores, which was at the lower end of its planned expansion range for the year. We reiterate our stance that Jarir is well-placed to absorb the market share shift to organized retailers, supported by new store rollouts especially in tier II cities and its strategy of changing product mix in line with changing customer preferences. Moreover, an attractive dividend yield along with low leverage continues to support the stock's attractiveness to investors. However, the entry of Souq.com and Noon.com in the market is likely to accelerate e-commerce growth in the region, which remains a source of headwind for Jarir's top line.

- The top line grew 6.0% YoY to SAR 7,362mn in FY18, led by higher sales in retail and other segments, which more than offset a decline in the wholesale segment. Growth in revenue was supported by increased sales of smartphones, electronics, IT and other digital products. However, sales of books, office and school supplies fell during the year. Additionally, a rise in the number of showrooms to 55 from 50 contributed to a YoY increase in retail sales.
- Gross profit rose 7.4% YoY to SAR 1,114mn in FY18, despite an increase in cost of sales (+5.8% YoY). Gross margin consequently rose 18.8bps YoY, led by higher revenue. During the quarter, however, gross margin fell on an annual and quarterly basis due to the higher cost of sales.
- Operating profit improved 9.4% YoY to SAR 914mn as operating expenses reduced during the year. Margins jumped 38.4 bps to 12.4% in FY18 vis-à-vis 12.0% in FY17. Conversely, operating margins dipped in 4Q18 (-4.8bps YoY, -249.6bps QoQ), attributed to higher selling and marketing expenses.
- Net profit advanced 10.6% annually for FY18, coming in at SAR 960mn, supported by higher sales, margin improvement, and lower general & administrative expenses. Consequently, net income margin expanded 54.2bps YoY to 13.0% in FY18, despite an increase in interest expense and zakat. For the quarter, net income increased to SAR 290mn (15.2% YoY, 0.8% QoQ).
- Jarir approved a capital increase of 33.3% through a bonus shares issue on October 29, 2018, thus raising the number of shares to 120 mn from 90 mn. It also approved dividends of SAR 2.35 per share for 4Q18.
- The company's impressive performance during the year was ascribed to the successful implementation of its strategy to adjust product mix in line with changing consumer behavior. We expect the launch of new stores and improving like-for-like (LFL) to support revenue growth in the upcoming years. Furthermore, consolidation in the industry would help large retailers such as Jarir to command better supplier terms than peers.

Valuation: We have revised our target price upwards with a fair value of SAR160.1 per share after incorporating a strong FY18 performance. However, increasing competition from e-commerce players may weigh down margin expansion in the upcoming years. Hence, we maintain our 'Neutral' rating on the stock.

	4Q18	4Q17	% YoY	FY19E	FY18	% YoY
Revenues (SAR bn)	2.1	2.0	6.8%	8.0	7.4	8.1%
Gross Profit (SAR bn)	0.32	0.3	4.5%	1.2	1.1	7.4%
EBITDA (SAR bn)	0.28	0.3	6.8%	1.05	1.0	7.7%
Net Profit (SAR bn)	0.29	0.3	15.2%	1.03	1.0	7.5%
EPS basic (SAR)	2.4	2.1	15.2%	8.6	8.0	7.5%
Gross Margin (%)	15.0%	15.3%	-0.3%	15.03%	15.1%	-0.1%
EBITDA Margin (%)	12.9%	12.9%	-	13.1%	13.2%	-
Net Profit Margin (%)	13.6%	12.6%	1.0%	12.96%	13.0%	-0.1%

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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