

May 08, 2019

### 1Q19 Results Update

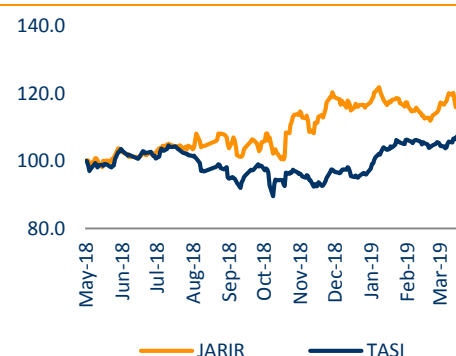
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	174.0
Target Price (SAR)	170.0
Upside/Downside (%)	(2.3%)

As of May 08<sup>th</sup> 2019

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	20.9
52 Wk High (SAR)	179.6
52 Wk Low (SAR)	127.5
Total Outstanding shares (in mn)	120.0
Free Float (%)	74.5%

#### JARIR vs. TASI (Rebased)

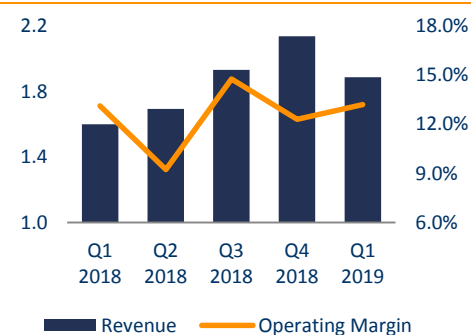


Price Performance (%)	Absolute	Relative
1m	3.8%	4.0%
6m	17.3%	1.5%
12m	34.5%	23.1%

#### Major Shareholders (%)

Jarir Investment Trading Company	21.0%
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#### Quarterly Sales (SAR bn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 08<sup>th</sup> May 2019

### Jarir's 1Q19 net profit boosted by robust sales and margin improvement

Jarir Marketing Co. (Jarir)'s 1Q19 net profit increased 6.7% YoY to SAR 234mn, meeting the consensus estimate. The net profit growth was driven by higher revenue and slower rise in cost of sales. Sales growth was largely led by its computer and electronics segments, which was in turn driven by a rise in smartphone sales. Additionally, the company increased its net number of showrooms to 57 in 1Q19 from 55 at the end of FY18. On a quarterly basis, its net profit declined 19.5% QoQ due to revenue contraction. The company's board also declared a cash dividend of SAR 1.9 per share, amounting to SAR 228mn for its 120mn shareholders.

During the quarter, Jarir opened three more stores and applied varied promotional programs to attract customers to its new payment systems. We believe Jarir is well placed to offer a unique shopping experience to its customers through the launch of new showrooms and 'Apple Shop' along with a change product mix in line with changing customer preferences. Besides, the company offers an attractive dividend yield along with a low leverage which makes it attractive to investors. However, increasing competition from e-commerce players remains a major concern for the growth potential in Jarir's top line.

- Revenues grew 18.0% YoY to SAR 1,887mn in 1Q19, led by a rise in the contribution from its electronics section on higher smartphone sales. However, revenue, on a quarterly basis, declined 11.7% QoQ owing to the favorable impact of sales of new smartphone models in the previous quarter.
- Gross profit rose 24.5% YoY to SAR 302mn in 1Q19 despite an increase in cost of sales (+16.8% YoY). Gross margin consequently rose to 16.0% in 1Q19 compared with 15.2% in 1Q18, led by higher revenue and slower growth in cost of sales. On a quarterly basis, however, gross profit declined but the gross profit margin was up from 15.0% in 4Q18.
- Operating profit rose %18.15 YoY to SAR 248mn as higher operating expenses offset most of the gains at the gross profit level. Operating margin marginally rose to 13.2% in 1Q19 from 13.1% in 1Q18. Operating profit declined %5.28 QoQ, largely attributed to lower sales and higher selling and marketing expenses.
- Net profit advanced 6.7% YoY for 1Q19 to SAR 234mn, as comparatively higher selling and marketing expenses and financial charges offset benefits from higher revenue and slow growth in cost of sales. Consequently, net margin contracted to 12.4% in 1Q19 from 13.7% in 1Q18. For the quarter, net income dropped 19.5% QoQ from SAR 290 mn in 4Q18.
- Jarir adopted IFRS 16 with a date of initial application of 1 January 2019, leading to an additional SAR 706mn of right-of-use assets, SAR 740mn of lease liabilities, and SAR 66mn of debit adjustments to retained earnings. Besides, rent expenses are replaced with depreciation of right-of-use and finance cost that led to a rise in depreciation and finance costs.
- The company opened three showrooms in 1Q19, taking the total number of showrooms to 57. We believe new store rollouts will allow Jarir to capture higher market share amid a shift in the market toward organized players.

**Valuation:** We revise our target price upwards with a fair value of SAR170.0 per share in view of the impressive performance in 1Q19. However, considering the rising competition from e-commerce players that may impact its margin expansion in the coming years, we maintain our 'Neutral' rating on the stock.

	1Q19	1Q18	% YoY	FY19E	FY18	% YoY
Revenues (SAR bn)	1.9	1.6	18.0%	8.1	7.4	10.0%
Gross Profit (SAR bn)	0.3	0.2	24.5%	1.2	1.1	10.7%
EBITDA (SAR bn)	0.3	0.2	26.3%	1.1	1.0	11.1%
Net Profit (SAR bn)	0.2	0.2	6.7%	1.1	1.0	11.0%
EPS basic (SAR)	1.9	1.8	6.7%	8.9	8.0	11.0%
Gross Margin (%)	16.0%	15.2%	0.8%	15.2%	15.1%	0.1%
EBITDA Margin (%)	15.0%	14.0%	1.0%	13.3%	13.2%	0.1%
Net Profit Margin (%)	12.4%	13.7%	-1.3%	13.2%	13.0%	0.1%

Source: Company Financials, FALCOM Research

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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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