

**1Q20 Results Update**

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	141.2
Target Price (SAR)	162.0
Upside/Downside (%)	14.7%

*As of June 17<sup>th</sup>, 2020*
**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	17.0
52-Wk High (SAR)	173.6
52-Wk Low (SAR)	110.0
Total Outstanding shares (in mn)	120.0
Free Float (%)	89.0%

**JARIR vs. TASI (Rebased)**


Price Performance (%)	Absolute	Relative
1m	8.6%	1.5%
6m	(12.3%)	(2.1%)
12m	(17.8%)	0.8%

**Major Shareholders (%)**

Jarir Investment Trading Company	21.8%
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**Quarterly Sales (SAR bn) and Operating Margin**


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 17<sup>th</sup> June 2020

**Higher number of showrooms, increased sales push up revenue for 1Q20**

Jarir's net profit expanded 7.7% YoY to SAR 251.7mn, driven by higher sales across segments, especially electronics. Also, the number of showrooms increased by 4 to 60 in the past 12 months, further pushing up gains in the top line. The company's margins, however, failed to grow in line with revenue due to higher cost of sales and increased operating expenses. On a quarterly basis, the net profit declined as the previous quarter benefitted from the launch of new smartphones.

In March 2020, the company announced a temporary closure of stores in the kingdom in view of the COVID-19 pandemic. We believe this will have a marked impact on the company's performance in the 2Q20 performance. To counter this, the company continues to focus on growing its ecommerce platform and minimizing the impact of store closures. Also, the company's margins continue to face pressure as the sales mix tilts to electronics and smartphones, which command lower margins than other its products. Moreover, the company's sales and marketing expense keeps rising as it continues to support the growth of its ecommerce platform. We expect a moderate revenue growth in the next year and profit margins to be subdued as discretionary spending in Saudi Arabia and the rest of the world is expected to be muted. However, the company maintains a strong position of liquidity with low debt. We believe the current valuation offers scope for upside potential and therefore change our rating to "Overweight" on the stock.

- Revenue advanced 24.0% YoY to SAR 2.3bn due to higher sales across segments, particularly electronics. Revenue from the retail segment was higher over the comparable period last year due to a rise in the number of showrooms.
- Gross profit expanded 8.4% YoY to SAR 327mn in 1Q20. Gross margin for the quarter stood at 14.0%, below 16.0% in 1Q19, due to the change in sales mix and higher cost of sales.
- Operating profit was up 6.6% YoY to SAR 265mn. Operating margin for the quarter, however, slid to 11.3%, as against 13.2% in 1Q19, due to a rise in general, administrative, selling, and marketing expenses.
- Net profit grew 7.7% YoY to SAR 252mn, lower than the rate of revenue growth, as the product mix moved towards lower margin products. Financial charges also remained in line with those in the previous year due to which the net income margin dropped to 10.8% in 1Q20 compared to 12.4% in 1Q19.
- The company announced a cash dividend of SAR 1.7per share at 17% of the face value for its 120 million shareholders, which amounted to SAR 204mn for 1Q20.
- Jarir added 1 new store during the quarter 1Q20, bringing its tally of showrooms to 60.

**Valuation:** We maintain our target price at a fair value of SAR 162.0 per share and retain our "Overweight" rating.

	1Q20	1Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR bn)	2.3	1.9	24.0%	7.3	8.4	(13.0%)
Gross Profit (SAR bn)	0.3	0.3	8.4%	1.0	1.3	(20.0%)
EBITDA (SAR bn)	0.3	0.3	7.2%	0.8	1.2	(29.1%)
Net Profit (SAR bn)	0.3	0.2	7.7%	0.7	1.0	(24.9%)
EPS Basic (SAR)	2.1	1.9	7.7%	6.2	8.2	(24.9%)
Gross Margin (%)	14.0%	16.0%	(2.0%)	13.9%	15.1%	(1.2%)
EBITDA Margin (%)	12.9%	15.0%	(2.0%)	11.3%	13.8%	(2.6%)
Net Profit Margin (%)	10.8%	12.4%	(1.6%)	10.1%	11.7%	(1.6%)

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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