

Jarir Marketing Company

Lower expenses on advertisement and promotional offers boosted profit

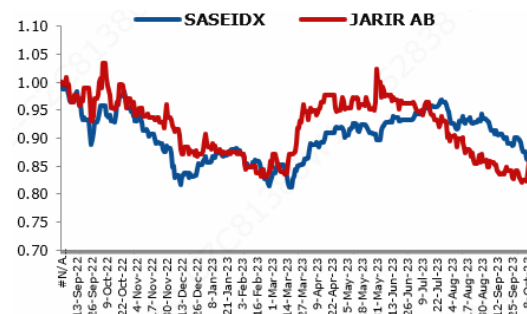
Current Price
SAR 14.96

Target Price
SAR 17.50

Upside/Downside (%)
+17%

Rating
BUY

- Jarir's revenue grew 4.8% YOY to SAR 2,639 Mn in 3Q23 attributable to growth in all the segments, particularly in computer and video game sections
- Operating profit margin declined from 11.6% in 3Q22 to 12.0% in 3Q23 due to decline in selling and marketing expense as a result of decline in expenditure on advertisement and promotional offers
- The Company opened new store in Jeddah with a total area of 4,340 sq mt after which its total store count reached to total of 71 stores of which 61 store are located in KSA



Stock Information

Market Cap (SAR, mm)	17,952.00
Paid Up Capital (mm)	1,200.00
52 Week High	17.62
52 Week Low	14.00
3M Avg. daily value (SAR)	27,113,060

3Q23 Net Profit higher than our estimate

Jarir Marketing Co ("JARIR", "The Company") reported 8.2% YOY growth in net profit to SAR 296 Mn in 3Q23, higher than our estimate of SAR 275 Mn. The rise in net profit was primarily attributable to 4.8% YOY growth in revenue, which can be attributed to heightened sales of computer and video games sections. In addition, the rise in profitability was also fueled by an increase in other income and decline in selling and marketing expenses.

P&L Highlights

The Company's revenue grew 4.8% YOY to SAR 2,639 Mn in 3Q23 attributable to growth in all segments, particularly in computer and video game sections. On the other hand, the cost of sales rose 5.1% YOY to SAR 2,255 Mn in 3Q23. Thus, gross profit grew 3.2% YOY to SAR 384 Mn in 3Q23. However, gross profit margin declined 24 bps YOY to 14.6% in 3Q23. Furthermore, the Company's operating profit rose 8.2% YOY to SAR 316 Mn in 3Q23 owing to a decline in selling and marketing (S&M) expenses. S&M expenses fell due to higher expenditure on advertisement expenses and promotional offers in previous quarter as compared to this quarter. Thus, the Company's operating margin grew from 11.6% in 3Q22 to 12.0% in 3Q23.

Balance Sheet Highlights

Jarir's total equity rose from SAR 1,685 Mn in 2Q23 to SAR 1,799 Mn in 3Q23. The company's borrowings stood at SAR 370 Mn in 2Q23 as compared to SAR 235 Mn in 1Q23. Jarir's cash flow from operating activities stood negative at SAR 87 Mn in 1H23 as compared to a positive operating cash flow of SAR 168 Mn in 1H22.

3Q23 Result Review (SAR, mm)

Revenue	2,639
Operating Profit	316
Net Profit	296
EPS (SAR)	0.24

Financial Ratios

Dividend Yield (12m)	5.35
Dividend Pay-out (%)	95.28
Price-Earnings Ratio(x)	19.01
Price-to-Book Ratio (x)	10.66
Book Value (SAR)	1.40
Return-on Equity (%)	55.75

Stock Performance

5 Days	5.35%
1 Months	3.60%
3 Months	-9.88%
6 Months	-9.77%
1 Year	-8.89%
Month to Date (MTD%)	3.17%
Quarter to Date (QTD%)	3.17%
Year to Date (YTD%)	-0.27%

Target Price and Rating

We revised our rating on JARIR from HOLD to BUY with an unchanged target price of SAR 17.50. The Company share price declined 7.7% since our last rating on 17 July 2023. Jarir witnessed a growth in profitability owing to a rise in top line, operating income and a decline in selling and marketing expenses in 3Q23. The Company recorded a 4.8% YOY growth in revenue in 3Q23 mainly driven by a strong growth in sales of computer and video games sections. Jarir reported highest quarterly operating margin since 1Q22 and reported an operating margin of 12.0% in 3Q23 due to lower advertisement expense and promotional offers. Jarir opened three new stores in 2023 1 each in UAE, Kuwait and KSA. In KSA, it also replaced the existing store with a bigger area in the same locality. The company replaced a store in Al-Rashid Mall with another store in the same complex with a larger area. In addition, the Company further opened its new store in Jeddah with a total area of 4,340 sq mt. After opening the third store in 3Q23, the Company's total store count reached to total of 71 stores of which 61 store are located in KSA. Furthermore, it aims to reach a total store count of 80 showrooms until the year 2025. Jarir expects smart TVs segment revenue to grow 20.0- 25.0% and electronic games sales to rise 5.0-10.0% in 2023 which will support the revenue. The Company is also utilizing various marketing strategies to enhance sales within its e-commerce division, with the aim of increasing online sales and strengthening its market position. Moreover, the company announced to distribute a dividend of SAR 0.15 per share for three months ending June 2023 and paid a cumulative dividend of SAR 0.355 for 1H23. Additionally, the Company is trading at an attractive yield of 5.1% in 2023. Considering all these factors, we assign a BUY rating on the stock.

Jarir - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	18.70	18.23	17.90	18.10	18.51	17.60
PB	10.56	10.91	10.41	10.15	9.96	9.70
EV/EBITDA	17.47	15.02	14.28	14.40	14.70	14.04
Dividend yield	6.1%	5.4%	5.1%	5.3%	5.1%	5.1%

FABS Estimates & Co Data

Jarir - P&L

SAR mm	3Q22	2Q23	3Q23A	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Sales	2,517	2,436	2,639	2,621	4.8%	8.3%	9,392	10,329	10.0%	2,517
Cost of Sales	-2,145	-2,196	-2,255	-2,254	5.1%	2.7%	-8,104	-9,027	11.4%	-2,145
Gross profit	372	240	384	367	3.2%	60.3%	1,287	1,301	1.1%	372
Operating expenses	-89	-77	-68	-84	-23.6%	-11.7%	-326	-300	-8.0%	-89
Operating profit	291	175	316	292	8.5%	80.8%	1,019	1,052	3.3%	291
Profit attributable	274	156	296	275	8.2%	90.2%	970	979	1.0%	274

FABS estimate & Co Data

Jarir - Margins

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross Profit	14.8%	9.8%	14.6%	-24	472	13.7%	12.6%	-111
Operating Profit	11.6%	7.2%	12.0%	40	480	10.8%	10.2%	-66
Net Profit	10.9%	6.4%	11.2%	35	483	10.3%	9.5%	-84

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash flow (DCF), Dividend Discount (DDM) and Relative Valuation (RV) to value Jarir. We have assigned 50% weight to DCF, and 25% weight to DDM and RV valuation method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	19.67	50.0%	9.83
Dividend Discount Model (DDM)	17.55	25.0%	4.39
Relative Valuation (RV)	13.10	25.0%	3.28
Weighted Average Valuation (SAR)			17.50
Current market price (SAR)			14.96
Upside/Downside (%)			17.0%

1) DCF Method:

Jarir is valued using free cash flow to equity. We have discounted the cash flow using the cost of equity of 8.4%. Cost of equity is calculated by using a 10-year government bond yield of 4.5%, a beta of 0.77 and equity risk premium of 4.0%. Government bond yield is calculated after adding KSA 10-year spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (SAR, Mn)	5,287
Terminal value (SAR, Mn)	18,317
FV to Common shareholders (SAR, Mn)	23,603
No. of share (Mn)	1,200
Current Market Price (SAR)	14.96
Fair Value per share (SAR)	19.67

DCF Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Cash Flow from Operations	1,274	1,198	1,302	1,493	1,569
CAPEX	-116	-125	-136	-136	-136
Net Change in Lease	26	29	32	34	36
Free Cash Flow to Equity (FCFE)	1,184	1,102	1,198	1,390	1,469
Discounting Factor	0.98	0.91	0.84	0.77	0.71
Discounted FCFE	1,164	1,000	1,002	1,074	1,047

Source: FAB Securities

2) DDM Method:

Jarir's dividend grew in line with profit and pays regular dividends to its shareholders. Thus, we have valued Jarir using the DDM valuation method. Dividend is discounted at the cost of equity of 8.4%.

Sum of PV (SAR, Mn)	4,583
Terminal value (SAR, Mn)	16,481
FV to Common shareholders (SAR, Mn)	21,064
No. of share (Mn)	1,200
Current Market Price (SAR)	15.80
Fair Value per share (SAR)	17.55

DDM Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Dividend Paid					
1Q	246	242	271	306	332
2Q	180	185	209	224	248
3Q	269	278	304	337	374
4Q	242	272	304	329	368
Total Dividend	938	977	1,088	1,196	1,322
Discounting Factor	0.98	0.91	0.84	0.77	0.71
Present Value of Dividend	921	886	910	924	942

Source: FAB Securities

3) Relative Valuation:

We have used local peers to value Jarir and it is valued using the EV/EBITDA multiple. Jarir traded at premium to peers due to a stable business model and strong cash flow generation hence applying a premium in valuation multiple. It is valued at a premium to EV/ EBITDA of 13.6X against peer multiple of 11.1x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
Extra	1,630	12.0	10.3	19.2	14.5
SACO	269	10.2	8.0	NA	75.3
Hassan Shaker	273	21.5	18.5	17.2	14.0
Cenomi Retail	568	5.4	6.7	NA	12.9
Average		12.3x	10.9x	18.2x	29.2x
Median		11.1x	9.2x	18.2x	14.3x
Max		14.4x	12.4x	18.7x	29.7x
Min		9.0x	7.7x	17.7x	13.7x

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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