

Jarir Marketing Company

Discounting continues to impact bottom line and margins

3Q22 Net Profit marginally higher than our estimate

Jarir Marketing Co ("JARIR", "The Company") reported a marginal growth in net profit from SAR 272 Mn in 3Q21 to SAR 274 Mn in 3Q22, slightly higher than our estimate of SAR 266 Mn. The marginal growth in net profit is driven by a 13.1% YOY growth in top-line which is largely offset by an increase in cost of sales and selling and marketing expenses. The Company spent on promotions, discount and advertisement to enhance its market share in KSA.

P&L highlights

Total revenue increased 13.1% YOY to SAR 2,517 Mn in 3Q22 mainly due to a growth in sales of smartphones and school supplies supported by promotional offers and the back-to-school season. The cost of sales rose 14.1% YOY to SAR 2,145 Mn in 3Q22 due to discounts offered to customers to boost smartphone sales and enhance market share of the company. As a result, gross profit rose 8.2% YOY to SAR 372 Mn in 3Q22 with a gross margin of 14.8% in 3Q22 compared to 15.5% in 3Q21. The Company selling and marketing expenses rose in 3Q22 as it made investment in the advertisement and marketing expenses to support promotional offers and discount offered to increase sales. JARIR also recorded a decline in other income mainly due to increase in insurance compensation of SAR 11 Mn in 3Q22. Thus, operating profit fell marginally 0.4% YOY to SAR 291.3 Mn in 3Q22.

Balance Sheet highlights

As of 30 June 2022, the company remained debt free. Total lease liabilities stood at SAR 679.4 Mn in 2Q22. Cash and cash equivalents stood at SAR 230.2 Mn in 2Q22. Jarir generated SAR 167.5 Mn in cash flow from operations in 1H22 compared to SAR 511.7 Mn in 1H21 due to decline in profit and increased investment in working capital.

Target price and rating

We revise our rating on JARIR from BUY to HOLD with a target price of SAR 175.0. The Company share price moved up 17.1% since our last rating (i.e., 20 July 2022) compared to a negative change in TASI index value of 2.6% during the same time. It added two stores, while closed one store in 2022. It opened its first store in Bahrain. In addition, Jarir also plans to open seven new showrooms in 2022. The company revenue rose marginally 0.7% YOY to SAR 6,814.4 Mn during nine months of FY2022. While, it recorded a decline in profitability and margins due to discounts offered to customers to stimulate sales. JARIR is using a variety of marketing techniques to boost sales in its Ecommerce division, which will enable them to grow their online sales and enhance market share. However, this strategy is expected to pressurize profitability in the near-term. It will continue to adopt this strategy for expansion in Saudi Arabia, Kuwait, the UAE, and Bahrain, and other countries. Jarir also expects shortage of electronic products to ease from August 2022 which will increase product offering and further help in growing sales during 2022. It entered into partnership agreement with several local banks to offer financial solution to pay for purchases in easy installments. These initiatives would help Jarir in growing sales during 2022. JARIR is trading at an attractive dividend yield of 4.7% based on FY2022 financials. Considering all these factors, we assign a HOLD rating on the stock.

Rating : HOLD

First Look Note – 3Q22

Sector: Consumer Discretionary

Recommendation

Current Price (19-Oct-22)	165.00
Target Price	175.00
Upside/Downside (%)	+6.1%

Stock Information

Market Cap (mm)	19,800.00
Paid Up Capital (mm)	1,200.00
52 Week High	211.00
52 Week Low	141.60
3M Avg. daily value (SAR)	29,621,210



Financial Ratios

Dividend Yield (12m)	4.55
Dividend Pay-out (%)	95.58
Price-Earnings Ratio (x)	20.55
Price-to-Book Ratio (x)	11.62
Book Value (SAR)	14.20
Return-on Equity (%)	57.47
Earning Per Share (SAR)	8.03
Beta	0.74

Stock Performance

5 Days	-1.90%
1 Months	-0.84%
3 Months	14.90%
6 Months	-16.41%
1 Year	-18.56%
Month to Date (MTD)	-1.20%
Quarter to Date (QTD)	-1.20%
Year to Date (YTD)	-16.16%

JARIR - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
PE(X)	20.6	20.1	19.7	19.9	18.3
PB(X)	11.6	12.0	11.4	11.2	11.1
EV/EBITDA	19.2	16.5	15.7	15.9	14.9
Dividend yield	4.5%	5.0%	4.7%	4.8%	4.8%

FABS Estimates & Co Data

JARIR - P&L

SAR mm	3Q21	2Q22	3Q22A	3Q22F	Var	YOY Ch	QOQ Ch	2021	2022F	Ch
Sales	2,224	2,011	2,517	2,386	5.5%	13.1%	25.2%	9,088	9,393	3.4%
Cost of Sales	-1,880	-1,762	-2,145	-2,052	4.5%	14.1%	21.7%	-7,859	-8,078	2.8%
Gross profit	344	249	372	334	11.5%	8.2%	49.8%	1,229	1,315	7.0%
Operating profit	293	192	291	284	2.4%	-0.4%	51.9%	1,061	1,153	8.7%
Net Profit	272	177	274	266	3.0%	0.4%	54.5%	992	1,079	8.8%

JARIR - Margins

	3Q21	2Q22	3Q22A	YOY Ch	QOQ Ch	2021	2022F	Change
Gross profit	15.5%	12.4%	14.8%	-68	243	13.5%	14.0%	47
Operating Profit	13.2%	9.5%	11.6%	-158	203	11.7%	12.3%	60
Net Profit	12.2%	8.8%	10.9%	-138	206	10.9%	11.5%	58

FABS estimate & Co Data

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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