

Jarir Marketing Company

Discounts from smartphone vendors benefitted the bottom line

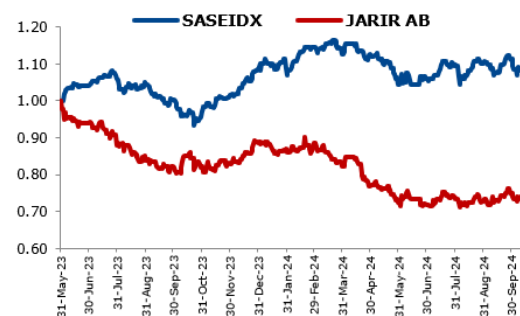
Current Price
SAR 13.30

Target Price
SAR 15.50

Upside/Downside (%)
+16.5%

Rating
BUY

- Jarir opened a showroom in Doha Mall, Qatar. This is the fourth showroom opened in Qatar, bringing the total number of showrooms to 73 across all regions. This is the second showroom opened in 2024.
- Jarir distributed a dividend of SAR 0.34 per share for 1Q24 and 2Q24.
- Gross profit rose 7.9% YOY to SAR 415 Mn with an expansion in margin by 98 bps YOY to 15.5% in 3Q24 due to discounts received on smartphones from vendors.
- Operating profit rose by 5.0% YOY to SAR 332 Mn in 3Q24 with an improvement in margin of 47 bps YOY to 12.4% in 3Q24.



3Q24 Net Profit higher than our estimate

Jarir Marketing Co ("JARIR", "The Company") reported a 4.0% YOY increase in net profit to SAR 308 Mn in 3Q24, higher than our estimate of SAR 291 Mn. The growth in net profit was primarily attributable to a rise in revenue owing to an increase in the sale of computers, tablets and smartphones coupled with discounts received on smartphones from vendors partially offset by a rise in selling & marketing, G&A, and non-operating expenses.

P&L Highlights

The Company's revenue increased 1.0% YOY to SAR 2,667 Mn in 3Q24 attributable to a rise in the sales of computers, tablets, and smart phones. The cost of sales declined marginally by 0.1% YOY to SAR 2,252 Mn in 3Q24 attributed to discounts received on smart phone from vendors. As a result, the gross profit rose by 7.9% YOY to SAR 415 Mn in 3Q24. Moreover, the gross profit margin rose 98 bps YOY to 15.5% in 3Q24. The operating profit rose by 5.0% YOY to SAR 332 Mn in 3Q24. The growth in operating profit is lower than gross profit mainly due to an increase in selling & marketing expenses, general & administrative expenses, and non-operating expenses. The operating profit margin improved by 47 bps YOY to 12.4% in 3Q24.

Target Price and Rating

We maintain our BUY rating on Jarir Marketing Co. with a revised target price of SAR 15.50. Jarir's performance in 3Q24 remained healthy owing to marginal growth in sales and uplift in margin due to discount received smartphone vendors partially offset by an increase in operating expenses. The company plans to expand in Saudi Arabia, Kuwait, the UAE, and Bahrain as part of its strategy. In line with this aim, Jarir opened a showroom in Doha Mall, Qatar. This is the fourth

Stock Information

| | |
|---------------------------|------------|
| Market Cap (SAR, Mn) | 15,960.00 |
| Paid Up Capital (Mn) | 1,200.00 |
| 52 Week High | 15.96 |
| 52 Week Low | 12.40 |
| 3M Avg. daily value (SAR) | 24,127,480 |

3Q24 Result Review (SAR, Mn)

| | |
|------------------|--------|
| Sales | 2,667 |
| Cost of Sales | -2,252 |
| Operating profit | 332 |
| Net Profit | 308 |

Financial Ratios

| | |
|-------------------------|--------|
| Dividend Yield (12m) | 6.17 |
| Dividend Pay-out (%) | 101.74 |
| Price-Earnings Ratio(x) | 16.74 |
| Price-to-Book Ratio (x) | 9.67 |
| Book Value (SAR) | 1.38 |
| Return-on Equity (%) | 57.56 |

Stock Performance

| | |
|------------------------|---------|
| 5 Days | 3.10% |
| 1 Months | 3.10% |
| 3 Months | 1.37% |
| 6 Months | -8.78% |
| 1 Year | -11.80% |
| Month to Date (MTD%) | 1.22% |
| Quarter to Date (QTD%) | 1.22% |
| Year to Date (YTD%) | -14.63% |

showroom opened in Qatar, bringing the total number of showrooms to 73 across all regions. The showroom will offer the Jarir bookstore product range, and its financial impact will be visible from 3Q24 onwards. Moreover, the company intends to launch five showrooms in 2025 which will be rented, in line with its aim to boost returns. The number of showroom visitors in the KSA is rising steadily as the country is experiencing a robust economy, increasing consumption, and population growth which will benefit Jarir's top line going ahead. The company intends to increase its market share in the retail sector by providing after-sales services for Apple products and reducing client wait times. Moreover, it will implement marketing offers to lower the purchase price of devices and launch competitive seasonal promotional campaigns to acquire new customers. In addition to developing system features to better the customer experience, Jarir will keep working to link and integrate e-commerce systems to improve order and delivery processes, increase consumer conversion to its e-commerce systems, and more. Jarir distributed a cash dividend of SAR 0.34 per share in 1H24. Considering these factors and the company's strategy to expand further in the GCC region, we reaffirm our BUY rating on the stock.

Jarir - Relative valuation

| (at CMP) | 2019 | 2020 | 2021 | 2022 | 2023 | 2024F |
|----------------|------|------|------|------|------|-------|
| PE | 16.2 | 15.9 | 16.1 | 16.5 | 16.4 | 16.3 |
| PB | 9.7 | 9.3 | 9.0 | 8.9 | 9.0 | 9.7 |
| EV/EBITDA | 13.4 | 12.7 | 12.8 | 13.0 | 13.0 | 13.1 |
| Dividend yield | 6.0% | 5.9% | 5.6% | 6.0% | 6.3% | 5.9% |

FABS Estimates & Co Data

Jarir - P&L

| SAR Mn | 3Q23 | 2Q24 | 3Q24 | 3Q24F | Var. | YOY Ch | QOQ Ch | 2023 | 2024F | Change |
|----------------------------|------------|------------|------------|------------|-------------|-------------|--------------|--------------|--------------|-------------|
| Sales | 2,639 | 2,650 | 2,667 | 2,852 | -6.5% | 1.0% | 0.6% | 10,595 | 10,870 | 2.6% |
| Cost of Sales | -2,255 | -2,387 | -2,252 | -2,467 | -8.7% | -0.1% | -5.7% | -9,319 | -9,555 | 2.5% |
| Gross profit | 384 | 262 | 415 | 385 | 7.7% | 7.9% | 58.0% | 1,276 | 1,315 | 3.1% |
| Operating profit | 316 | 189 | 332 | 309 | 7.4% | 5.0% | 75.6% | 1,045 | 1,051 | 0.6% |
| Profit attributable | 296 | 172 | 308 | 291 | 6.0% | 4.0% | 79.1% | 973 | 978 | 0.5% |

FABS estimate & Co Data

Jarir - Margins

| | 3Q23 | 2Q24 | 3Q24 | YOY Ch | QOQ Ch | 2023 | 2024F | Change |
|------------------|-------|------|-------|--------|--------|-------|-------|--------|
| Gross Profit | 14.6% | 9.9% | 15.5% | 98 | 564 | 12.0% | 12.1% | 6 |
| Operating Profit | 12.0% | 7.1% | 12.4% | 47 | 531 | 9.9% | 9.7% | -20 |
| Net Profit | 11.2% | 6.5% | 11.6% | 33 | 506 | 9.2% | 9.0% | -19 |

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 | 15.54 | 50.0% | 7.77 |
| Dividend Discount Model (DDM) | 16.70 | 25.0% | 4.18 |
| Relative Valuation (RV) | 14.21 | 25.0% | 3.55 |
| Weighted Average Valuation (SAR) | | | 15.50 |
| Current market price (SAR) | | | 13.30 |
| Upside/Downside (%) | | | +16.5% |

1) DCF Method:

Jarir is valued using free cash flow to equity. We have discounted the cash flow using the cost of equity of 8.3%. The cost of equity is calculated by using a 10-year government bond yield of 4.1%, a beta of 0.75 and an equity risk premium of 4.7%. 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) | 3,911 |
| Terminal value (SAR, Mn) | 14,740 |
| FV to Common shareholders (SAR, Mn) | 18,650 |
| No. of share (Mn) | 1,200 |
| Current Market Price (SAR) | 13.30 |
| Fair Value per share (SAR) | 15.54 |

DCF Method

| (All Figures in SAR Mn) | FY 2024E | FY 2025E | FY 2026E | FY 2027E | FY 2028E |
|--|--------------|------------|------------|--------------|--------------|
| Net income | 978 | 1,023 | 1,146 | 1,212 | 1,324 |
| D&A | 180 | 181 | 184 | 188 | 193 |
| Changes in working capital | 244 | -17 | -201 | -107 | -120 |
| Payment of lease liabilities | -111 | -111 | -112 | -114 | -116 |
| (-) Capex | -91 | -96 | -102 | -108 | -116 |
| Free Cash Flow to Equity (FCFE) | 1,200 | 980 | 915 | 1,071 | 1,166 |
| Discounting Factor | 0.98 | 0.91 | 0.84 | 0.77 | 0.72 |
| Discounted FCFE¹ | 590 | 890 | 767 | 829 | 834 |

Source: FAB Securities, ¹ Adjusted FCFE for partial year

2) DDM Method:

Jarir's dividend grew in line with profit and the Company also pays regular dividends to its shareholders. Thus, we have valued Jarir using the DDM valuation method. The dividend is discounted at the cost of equity of 8.3%.

| | |
|--|---------------|
| Sum of PV (SAR, Mn) | 4,134 |
| Terminal value (SAR, Mn) | 15,906 |
| FV to Common shareholders (SAR, Mn) | 20,040 |
| No. of share (Mn) | 1,200 |
| Current Market Price (SAR) | 13.30 |
| Fair Value per share (SAR) | 16.70 |

DDM Method

| (All Figures in SAR Mn) | FY 2024E | FY 2025E | FY 2026E | FY 2027E | FY 2028E |
|----------------------------------|------------|------------|--------------|--------------|--------------|
| Dividend Paid | | | | | |
| 1Q | | 243 | 280 | 290 | 316 |
| 2Q | | 187 | 204 | 216 | 237 |
| 3Q | 298 | 277 | 314 | 335 | 368 |
| 4Q | 258 | 265 | 292 | 310 | 337 |
| Total Dividend | 556 | 972 | 1,089 | 1,151 | 1,258 |
| Discounting Factor | 0.98 | 0.91 | 0.84 | 0.77 | 0.72 |
| Present Value of Dividend | 547 | 883 | 913 | 891 | 900 |

Source: FAB Securities

3) Relative Valuation:

We have used local peers to value Jarir and it is valued using the PE multiple. The Company is valued at a discount to the peer median multiple and valued closest to its peer United Electronics Company (Extra). It is valued at a multiple of 17.4x.

| Company | Market (USD Mn) | EV/EBITDA (x) | | P/E (x) | |
|------------------------------------|--------------------|---------------|--------------|--------------|--------------|
| | | 2024F | 2025F | 2024F | 2025F |
| Extra | 1,988 | 13.5 | 11.8 | 16.5 | 14.2 |
| ABDULLAH AL-OTHAIM MARKETS COMPANY | 273 | 13.5 | 12.5 | 25.4 | 23.0 |
| SAVOLA GROUP COMPANY | 8,108 | 13.0 | 12.4 | 21.8 | 17.8 |
| BinDawood Holding | 2,157 | 11.3 | 10.6 | 26.7 | 22.5 |
| Al Dawaa Medical Services Company | 2,083 | 11.1 | 10.2 | 20.4 | 17.1 |
| Average | | 12.5x | 11.5x | 22.2x | 18.9x |
| Median | | 13.0x | 11.8x | 21.8x | 17.8x |
| Max | | 13.5x | 12.4x | 25.4x | 22.5x |
| Min | | 11.3x | 10.6x | 20.4x | 17.1x |

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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