

Jarir Marketing Company

Expansion of the showroom network to drive revenue growth

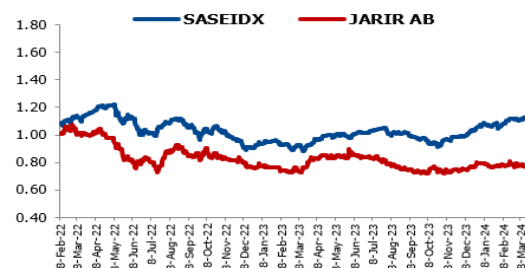
Current Price
SAR 13.90

Target Price
SAR 16.50

Upside/Downside (%)
+19%

Rating
BUY

- Jarir's revenue declined 2.5% YOY to SAR 2,650 Mn in 1Q24 attributable to a decline in the sales of computers and office supplies.
- Jarir's operating profit declined 10.2% YOY to SAR 238 Mn in 1Q24 due to a rise in selling and marketing expenses and a decline in other income while operating profit margin fell 77 bps YOY to 9.0%.
- Jarir operates 70 stores in GCC as of December 2023 and further aims to reach 80 showrooms in GCC by 2025 year-end.



1Q24 Net Profit lower than our estimate

Jarir Marketing Co ("JARIR", "The Company") reported an 11.5% YOY decline in net profit to SAR 219 Mn in 1Q24, lower than our estimate of SAR 244 Mn. The decline in net profit was primarily attributable to lower sales due to a change in the sale mix, a decline in the profit margin of smartphones to maintain the market share, and higher selling & marketing expenses.

P&L Highlights

The Company's revenue declined 2.5% YOY to SAR 2,650 Mn in 1Q24 attributable to a drop in the sale of office supplies, computers, and computer supplies. Jarir's e-commerce sales fell 28% YOY in 1Q24 mainly driven by the customers' preference to purchase from the store to avail Buy Now, Pay Later (BNPL) service resulting in the store sales growing 8% YOY. Wholesale and corporate contract sales fell 25% YOY in 1Q24. On the other hand, the cost of sales declines 1.6% YOY to SAR 2,355 Mn in 1Q24. The company reduced prices amid strong competition in the retail sector. Furthermore, gross profit declined 9.0% YOY to SAR 295 Mn in 1Q24 recording a higher decline compared to revenue mainly due to a decline in the profit margins on smartphones to maintain the Company's market share. Thus, the gross profit margin declined 79 bps YOY to 11.1% in 1Q24. Furthermore, the Company's operating profit declined 10.2% YOY to SAR 238 Mn in 1Q24 due to an increase in selling & marketing expenses. The Company's operating profit margin declined 77 bps YOY to 9.0% in 1Q24. The net profit margin declined 84 bps YOY to 8.3% in 1Q24.

Balance Sheet Highlights

Jarir's total equity declined 3.7% YOY and 3.5% QOQ to SAR 1,710 Mn in 1Q24.

Stock Information

Market Cap (SAR, mm)	16,680.00
Paid Up Capital (mm)	1,200.00
52 Week High	17.62
52 Week Low	13.82
3M Avg. daily value (SAR)	31,656,760

1Q24 Result Review (SAR, mm)

Total Assets	NA
Total Liabilities	NA
Total Equity	1,710
EBITDA	NA
Net Profit	219

Financial Ratios

Dividend Yield (12m)	6.01
Dividend Pay-out (%)	101.74
Price-Earnings Ratio(x)	17.15
Price-to-Book Ratio (x)	9.42
Book Value (SAR)	1.48
Return-on Equity (%)	54.47

Stock Performance

5 Days	-4.53%
1 Months	-5.44%
3 Months	-8.67%
6 Months	-4.27%
1 Year	-15.24%
Month to Date (MTD%)	-4.14%
Quarter to Date (QTD%)	-4.14%
Year to Date (YTD%)	-10.78%

Target Price and Rating

We maintain our BUY rating on JARIR with a revised target price of SAR 16.50. The Company witnessed a marginal decline in revenue owing to a decline in the sale of office supplies, computers, and computer supplies in 1Q24. However, the fall in gross margin is primarily attributable to the offering of promotions and discounts on smartphones to boost sales and maintain its market share. The company is investing in digital infrastructure to increase E-commerce capabilities for overall growth in the domestic as well as international markets. The Company operates a total of 70 stores in GCC of which 61 are located in KSA and further aims to reach a total count of 80 showrooms in the GCC region by 2025 year-end and 90 showrooms in the next five years. 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. Jarir undertakes data driven approach to offer relevant products and retain customers through personalized services. Moreover, the company paid a dividend of SAR 0.23 per share for 4Q23 resulting in a cumulative dividend of SAR 0.84 for 2023 with an attractive dividend yield of 5.7%. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock.

Jarir - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	17.3	16.9	17.1	17.5	17.5	16.8
PB	10.3	9.8	9.6	9.4	9.6	9.7
EV/EBITDA	14.2	13.5	13.6	13.9	13.8	13.2
Dividend yield	5.6%	5.5%	5.3%	5.6%	5.9%	6.1%

FABS Estimates & Co Data

Jarir - P&L

SAR mm	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Sales	2,718	2,802	2,650	2,681	-1.1%	-2.5%	-5.4%	10,595	11,254	6.2%
Cost of Sales	-2,394	-2,474	-2,355	-2,362	-0.3%	-1.6%	-4.8%	-9,319	-9,893	6.2%
Gross profit	324	328	295	319	-7.6%	-9.0%	-10.2%	1,276	1,362	6.7%
Operating profit	264	290	238	262	-9.4%	-10.2%	-18.0%	1,045	1,085	3.9%
Profit attributable	248	273	219	244	-10.1%	-11.5%	-19.7%	969	1,012	4.5%

FABS estimate & Co Data

Jarir - Margins

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	11.9%	11.7%	11.1%	-79	-59	12.0%	12.1%	6
Operating Profit	9.7%	10.3%	9.0%	-77	-138	9.9%	9.6%	-22
Net Profit	9.1%	9.7%	8.3%	-84	-147	9.1%	9.0%	-15

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	16.19	50.0%	8.09
Dividend Discount Model (DDM)	18.71	25.0%	4.68
Relative Valuation (RV)	14.93	25.0%	3.73
Weighted Average Valuation (SAR)			16.50
Current market price (SAR)			13.90
Upside/Downside (%)			+19%

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%. Cost of equity is calculated by using a 10-year government bond yield of 5.4%, a beta of 0.75 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)	4,488
Terminal value (SAR, Mn)	14,937
FV to Common shareholders (SAR, Mn)	19,426
No. of share (Mn)	1,200
Current Market Price (SAR)	13.90
Fair Value per share (SAR)	16.19

DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net income	1,012	1,064	1,202	1,283	1,408
D&A	180	182	186	190	196
Changes in working capital	248	-44	-216	-119	-129
Payment of lease liabilities	-111	-112	-113	-115	-117
(-) Capex	-94	-100	-107	-115	-122
Free Cash Flow to Equity (FCFE)	1,235	991	952	1,126	1,235
Discounting Factor	0.95	0.87	0.81	0.74	0.69
Discounted FCFE	1,168	866	768	838	849

Source: FAB Securities

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. Dividend is discounted at the cost of equity of 8.3%.

Sum of PV (SAR, Mn)	4,922
Terminal value (SAR, Mn)	17,529
FV to Common shareholders (SAR, Mn)	22,451
No. of share (Mn)	1,200
Current Market Price (SAR)	13.90
Fair Value per share (SAR)	18.71

DDM Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Dividend Paid					
1Q	259	275	319	335	366
2Q	196	209	230	245	269
3Q	299	309	353	380	418
4Q	288	303	336	362	396
Total Dividend	1,043	1,096	1,238	1,321	1,449
Discounting Factor	0.95	0.87	0.81	0.74	0.69
Present Value of Dividend	986	957	998	984	996

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 at 2024 EV/ EBITDA of 14.3x against peer multiple of 11.7x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Extra	1,981	11.6	10.5	16.9	14.4
SACO	342	17.7	12.4	NA	NA
Abdullah al-othaim markets company	2,942	13.6	12.1	22.9	20.8
Savola group company	7,275	12.5	11.7	24.3	22.8
BinDawood Holding	2,813	14.0	12.8	36.2	31.4
Average		13.9x	11.9x	25.1x	22.4x
Median		13.6x	12.1x	23.6x	21.8x
Max		14.0x	12.4x	27.3x	25.0x
Min		12.5x	11.7x	21.4x	19.2x

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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