

Jarir Marketing Company

Discounting & product mix dragged profitability

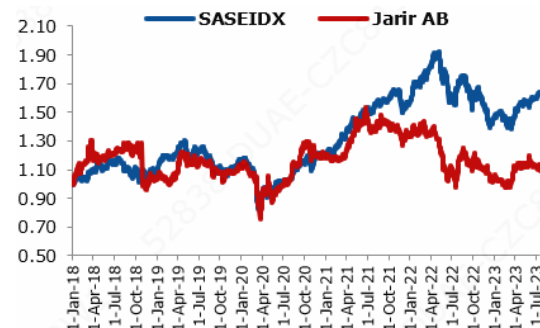
Current Price
SAR 16.00

Target Price
SAR 17.50

Upside/Downside (%)
+9.4%

Rating
HOLD

- Despite a seasonally weak quarter, sales rose 21.1% YOY driven by an increase in sales of smartphones and computers on the e-commerce platform
- Margins contracted during 2Q23 due to a shift in sales towards lower-margin products and a higher amount spent on discounts and marketing
- Jarir opened two new stores so far in 2023. The company also replaced a store in Al-Rashid Mall with another store in the same complex with a larger area. Furthermore, it aims to open a total of four new showrooms in the year 2023



2Q23 Net Profit lower than our estimate

Jarir Marketing Co ("JARIR", "The Company") reported 12.1% YOY decline in net profit to SAR 156 Mn in 2Q23, lower than our estimate of SAR 184 Mn. The drop in net profit is mainly due to a decline in gross profit resulting from sales discounts to boost sales and a shift in sales mix towards lower-margin products.

P&L Highlights

The Company's revenue rose 21.1% YOY to SAR 2,436 Mn in 2Q23 attributable to growth in all segments, particularly in smartphone and related accessories, and the computer and video game section. On the other hand, the cost of sales rose 24.6% YOY to SAR 2,196 Mn in 2Q23. Thus, gross profit declined 3.6% YOY to SAR 240 Mn mainly due to the discounts offered on the sale of smartphones and computers to attract customers along with lower sales of products with higher profit margins. As a result, the gross profit margin contracted 253 bps YOY and 208 bps QOQ to 9.8% in 2Q23. Furthermore, the Company's operating profit declined 8.9% YOY to SAR 175 Mn in 2Q23 owing to an increase in selling and marketing expenses to boost sales along with a decline in other income. company's operating margin declined 236 bps YOY to 7.2% in 2Q23. Furthermore, the company's finance cost rose in 2Q23 on YOY as well as QOQ basis due to an increase in borrowings.

Balance Sheet Highlights

Jarir's total equity declined 1.2% YOY to SAR 1,685 Mn in 2Q23. The company's borrowings stood at SAR 235 Mn in 1Q23 as compared to nil outstanding in 4Q22. Jarir's cash flow from operating activities stood negative at SAR 316 Mn in 1Q23 as compared to a positive cash flow of SAR 65 Mn in 1Q22

Stock Information

Market Cap (SAR, mm)	19,224.00
Paid Up Capital (mm)	1,200.00
52 Week High	18.40
52 Week Low	14.16
3M Avg. daily value (SAR)	44,065,760

2Q23 Result Review (SAR, mm)

Total Assets	4,120.40
Total Liabilities	2,345.08
Total Equity	1,775.32
EBITDA	307.72
Net Profit	155.80

Financial Ratios

Dividend Yield (12m)	4.96
Dividend Pay-out (%)	95.28
Price-Earnings Ratio(x)	20.36
Price-to-Book Ratio (x)	1.08
Book Value (SAR)	14.79
Return-on Equity (%)	54.42

Stock Performance

5 Days	-3.49%
1 Months	-3.61%
3 Months	-4.64%
6 Months	6.52%
1 Year	9.73%
Month to Date (MTD%)	-3.02%
Quarter to Date (QTD%)	-3.02%
Year to Date (YTD%)	6.93%

Target Price and Rating

We maintain our HOLD rating on JARIR with an unchanged target price of SAR 17.5. The company recorded a strong 21.1% increase in revenue in 2Q23 mainly driven by strong sales on the e-commerce platform of smartphones and computers in a seasonally low weak quarter. Jarir opened two new stores so far in 2023, one in the University City area in Sharjah, UAE, and the other in the Avenues Mall, Kuwait. The company also replaced a store in Al-Rashid Mall with another store in the same complex with a larger area. Furthermore, it aims to open a total of four new showrooms in the year 2023. Jarir expects smart TVs segment revenue to grow 20.0- 25.0% and electronic games sales to increase 5.0-10.0% in 2023 which will support the revenue. However, 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 e-commerce 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. It incurred additional marketing and promotional expenses to boost sales through promotional activities 2Q23. Moreover, the company distributed a dividend of SAR 0.205 per share for three months ending March 2023. Furthermore, the Company is trading at an attractive yield of 4.7% in 2023. Considering all these factors, we assign a HOLD rating on the stock.

Jarir - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	20.30	19.79	19.43	19.65	20.10	19.10
PB	11.47	11.85	11.30	11.02	10.82	10.50
EV/EBITDA	18.96	16.28	15.50	15.66	15.99	15.28
Dividend yield	5.8%	5.2%	4.9%	5.1%	4.9%	4.9%

FABS Estimates & Co Data

Jarir - P&L

SAR mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Sales	2,011	2,718	2,436	2,083	16.9%	21.1%	-10.4%	9,392	9,978	6.2%
Cost of Sales	-1,762	-2,394	-2,196	-1,823	20.5%	24.6%	-8.3%	-8,104	-8,581	5.9%
Gross profit	249	324	240	260	-8.0%	-3.6%	-26.0%	1,287	1,397	8.5%
Operating profit	192	264	175	200	-12.6%	-8.9%	-24.4%	1,019	1,073	5.3%
Profit attributable	177	248	156	184	-15.2%	-12.1%	-37.1%	970	1020	5.2%

FABS estimate & Co Data

Jarir - Margins

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Operating margin	12.4%	11.9%	9.8%	-253	-208	13.7%	14.0%	29
EBITDA margin	9.5%	9.7%	7.2%	-236	-255	10.8%	10.8%	-9
Net margin	8.8%	9.1%	6.4%	-242	-272	10.3%	10.2%	-10

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
Discounted Free Cash flow (DCF)	19.22	50.0%	9.61
Dividend Discount Model (DDM)	17.24	25.0%	4.31
Relative Valuation (RV)	14.30	25.0%	3.58
Weighted Average Valuation (SAR)			17.50
Current market price (SAR)			16.00
Upside/Downside (%)			+9.4%

1) DCF Method:

Jarir is valued using free cash flow to equity. We have discounted the cash flow using the cost of equity of 8.7%. Cost of equity is calculated by using a 10-year government bond yield of 4.7%, a beta of 0.77 and equity risk premium of 5.2%. 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)	5,417
Terminal value (SAR, Mn)	17,646
FV to Common shareholders (SAR, Mn)	23,064
No. of share (Mn)	1,200
Current Market Price (SAR)	16.00
Fair Value per share (SAR)	19.22

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Cash Flow from Operation	1,238	1,307	1,423	1,530	1,630
(-) Capex	-112	-119	-127	-124	-120
Net Change in Lease	26	29	32	34	36
Free Cash Flow to Equity (FCFE)	1,152	1,217	1,327	1,440	1,547
Discounting Factor	0.96	0.89	0.82	0.75	0.69
Discounted FCFE	1,110	1,078	1,082	1,080	1,067

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 8.7%.

Sum of PV (SAR, Mn)	4,826
Terminal value (SAR, Mn)	15,863
FV to Common shareholders (SAR, Mn)	20,689
No. of share (Mn)	1,200
Current Market Price (SAR)	16.00
Fair Value per share (SAR)	17.24

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Dividend Paid					
1Q	246	269	302	332	349
2Q	182	206	233	244	261
3Q	280	309	339	366	394
4Q	268	303	339	358	387
Total Dividend	976	1,086	1,214	1,299	1,390
Discounting Factor	0.96	0.89	0.82	0.75	0.69
Present Value of Dividend	941	963	989	975	959

Source: FAB Securities

3) Relative Valuation:

We have used local peers to value Jarir and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA of 14.1x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		PE (x)		Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Extra	1669	11.0	9.9	15.7	13.8	4.0	4.6
SACO	344	17.1	9.8	NM	42.2	3.8	4.5
Hassan Shaker	354	25.8	22.2	22.4	18.2	NA	NA
Cenomi Retail	470	4.5	7.1	NM	17.7	NA	NA
Average		14.6x	12.2x	19.1x	23.0x	3.9%	4.6%
Median		14.1x	9.8x	19.1x	18.0x	3.9%	4.6%
Max		19.3x	13.0x	20.7x	24.2x	4.0%	4.6%
Min		9.4x	9.1x	17.4x	16.7x	3.9%	4.5%

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%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
 +971-2-6161777

Institutional Desk +971-4-4245765

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.