

## Jarir Marketing Company

Improvement in sales mix drives top-line

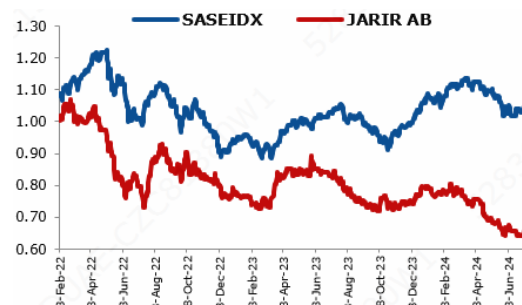
**Current Price**  
SAR 13.24

**Target Price**  
SAR 15.50

**Upside/Downside (%)**  
+17%

**Rating**  
BUY

- The Company's revenue increased 8.8% YOY to SAR 2,650 Mn in 2Q24 attributable to a growth in the sale of smartphones, computers, televisions, and video games.
- The sales growth in 2Q24 is supported by the "Buy Now, Pay Later" option in most of the GCC Countries which led to a jump in installment sales, and 25% of sales comprise installment sales in KSA.
- The company intends to open four showrooms in 2024 and five showrooms in 2025 which will be rented, aligned with its aim to boost returns.
- Jarir plans to launch new products in 2024 that will cater to the changing customer requirements focused on offering distinguished quality at competitive prices.



### 2Q24 Net Profit lower than our estimate

Jarir Marketing Co ("JARIR", "The Company") reported a 9.8% YOY increase in net profit to SAR 171 Mn in 2Q24, lower than our estimate of SAR 179 Mn. The rise in net profit was primarily attributable to a rise in sales and an increase in other income partially offset by a rise in G&A Expenses as well as selling & marketing expenses.

### P&L Highlights

The Company's revenue increased 8.8% YOY to SAR 2,650 Mn in 2Q24 attributable to a rise in the sale of smartphones, computers, televisions, and video games. Moreover, the sales growth in 2Q24 is supported by increased adoption of the "Buy Now, Pay Later" option in most of the GCC Countries which led to a jump in instalment sales. The Company now makes 25% of its sales in KSA through instalments. Moreover, the cost of sales increased 8.7% YOY to SAR 2,388 Mn in 2Q24. Furthermore, gross profit rose 9.6% YOY to SAR 263 Mn in 2Q24 owing to stable direct costs as a proportion of total sales. Thus, the gross profit margin expanded 7 bps YOY to 9.9% in 2Q24. Furthermore, the Company's operating profit grew 8.1% YOY to SAR 189 Mn in 2Q24. The operating margin fell 5 bps YOY to 7.1% due to an increase in selling & marketing and G&A Expenses.

### Target Price and Rating

We maintain our BUY rating on JARIR with a revised target price of SAR 15.50. Jarir's revenue grew 8.8% YOY in 2Q24 attributable to an increase in sales of smartphones, computers, televisions, and video games. The sales were boosted owing to the increased adoption of the "Buy Now, Pay Later" option in most of the GCC Countries contributing to a rise in installment sales.

### Stock Information

Market Cap (SAR, mm)	15,888.00
Paid Up Capital (mm)	1,200.00
52 Week High	16.20
52 Week Low	12.50
3M Avg. daily value (SAR)	29,771,570

### 2Q24 Result Review (SAR, mm)

Total Assets	NA
Total Equity	1,651
Sales	2,650
Gross profit	263
Net Profit	171

### Financial Ratios

Dividend Yield (12m)	6.19
Dividend Pay-out (%)	101.74
Price-Earnings Ratio(x)	16.88
Price-to-Book Ratio (x)	9.29
Book Value (SAR)	1.42
Return-on Equity (%)	54.21

### Stock Performance

5 Days	2.48%
1 Months	2.64%
3 Months	-9.07%
6 Months	-12.32%
1 Year	-18.17%
Month to Date (MTD%)	4.91%
Quarter to Date (QTD%)	4.91%
Year to Date (YTD%)	-15.02%

Jarir management expects net profit to grow by 3-5% in 2024 due to the boom of the e-commerce sector in the GCC as well as the rising contribution of installment sales in 2024. Moreover, the company intends to launch four showrooms in 2024 and five showrooms in 2025 which will be rented, aligned 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 the company's top line. In the retail business, the company aims to increase its market share in 2024 by offering after-sales services for Apple products as well as cutting down customer waiting time. Jarir will launch the "Request Spare Parts" service through which customers will be able to request spare parts for desktops and laptops, along with smart device accessories. In the UAE Retail sector business, Jarir Bookstore will launch comprehensive protection and warranty extension packages post-purchase to serve more customers. Moreover, the marketing team will continue with its consistent efforts to acquire a larger market share in 2024 by implementing marketing offers to lower the purchase price of devices, launching competitive seasonal promotional campaigns to acquire new customers, and maintaining website and showroom visitor numbers. Jarir Bookstore will collaborate with several local banks in every country to provide installment plans at cash prices which will help boost its market share. Aligned with this goal, the company signed a Memorandum of Cooperation with Emirates NBD to enhance customer experience by offering benefits and exclusive services to its customers. The company will also activate distinguished sales channels for its retail business which will likely benefit the top line. Jarir plans to launch new products in 2024 which will cater to the changing customer requirements focused on offering a distinguished quality at competitive prices. The company aims to upgrade the information technology equipment in all its offices and showrooms which will likely improve the services. In the e-commerce business, Jarir will continue its efforts to link and integrate e-commerce systems to enhance delivery processing and order processing, convert more customers to its e-commerce systems along with developing system features to improve customer experience. The company plans to expand in Saudi Arabia, Kuwait, the UAE, and Bahrain as part of its strategy. 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	15.7	15.5	15.6	16.0	15.9	16.5
PB	9.4	9.0	8.8	8.6	8.8	8.8
EV/EBITDA	13.0	12.3	12.4	12.6	12.6	13.1
Dividend yield	6.0%	5.9%	5.7%	6.0%	6.3%	5.9%

FABS Estimates & Co Data

#### Jarir - P&L

SAR mm	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Sales	2,436	2,650	2,650	2,489	6.5%	8.8%	0.0%	10,595	11,054	4.3%
Cost of Sales	-2,196	-2,355	-2,388	-2,223	7.4%	8.7%	1.4%	-9,319	-9,769	4.8%
<b>Gross profit</b>	<b>240</b>	<b>295</b>	<b>263</b>	<b>266</b>	-1.4%	<b>9.6%</b>	<b>-10.9%</b>	<b>1,276</b>	<b>1,284</b>	<b>0.7%</b>
<b>Operating profit</b>	<b>175</b>	<b>238</b>	<b>189</b>	<b>197</b>	-4.2%	<b>8.1%</b>	<b>-20.4%</b>	<b>1,045</b>	<b>1,014</b>	<b>-2.9%</b>
<b>Profit attributable</b>	<b>156</b>	<b>219</b>	<b>171</b>	<b>179</b>	<b>-4.5%</b>	<b>9.8%</b>	<b>-22.0%</b>	<b>969</b>	<b>941</b>	<b>-2.8%</b>

FABS estimate & Co Data

#### Jarir - Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	9.8%	11.1%	9.9%	7	-59	12.0%	11.6%	-42
Operating Profit	7.2%	9.0%	7.1%	-5	-138	9.9%	9.2%	-69
Net Profit	6.4%	8.3%	6.5%	6	-147	9.1%	8.5%	-63

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	15.81	50.0%	7.90
Dividend Discount Model (DDM)	17.22	25.0%	4.30
Relative Valuation (RV)	13.23	25.0%	3.30
<b>Weighted Average Valuation (SAR)</b>			<b>15.50</b>
Current market price (SAR)			13.24
Upside/Downside (%)			<b>+17%</b>

### 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)	3,878
Terminal value (SAR, Mn)	15,091
<b>FV to Common shareholders (SAR, Mn)</b>	<b>18,969</b>
No. of share (Mn)	1,200
Current Market Price (SAR)	13.24
<b>Fair Value per share (SAR)</b>	<b>15.81</b>

### DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net income	941	1,046	1,176	1,250	1,368
D&A	180	182	186	190	195
Changes in working capital	253	-37	-211	-115	-125
Payment of lease liabilities	-111	-112	-113	-115	-117
(-) Capex	-93	-98	-105	-112	-120
<b>Free Cash Flow to Equity (FCFE)</b>	<b>1,170</b>	<b>981</b>	<b>932</b>	<b>1,098</b>	<b>1,202</b>
Discounting Factor	0.96	0.89	0.82	0.76	0.70
<b>Discounted FCFE</b>	<b>564<sup>1</sup></b>	<b>873</b>	<b>766</b>	<b>833</b>	<b>842</b>

Source: FAB Securities, 1 Adjusted FCF 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)	4,493
Terminal value (SAR, Mn)	16,175
<b>FV to Common shareholders (SAR, Mn)</b>	<b>20,668</b>
No. of share (Mn)	1,200
Current Market Price (SAR)	12.92
<b>Fair Value per share (SAR)</b>	<b>17.22</b>

### DDM Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
<b>Dividend Paid</b>					
1Q	228	241	288	301	328
2Q	177	183	207	220	241
3Q	270	271	318	341	375
4Q	266	266	303	326	355
<b>Total Dividend</b>	<b>941</b>	<b>962</b>	<b>1,117</b>	<b>1,188</b>	<b>1,300</b>
Discounting Factor	0.96	0.89	0.82	0.76	0.70
<b>Present Value of Dividend</b>	<b>907</b>	<b>856</b>	<b>918</b>	<b>901</b>	<b>911</b>

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 multiple of 16.9x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Extra	1,890	12.0	10.9	16.8	13.7
ABDULLAH AL-OTHAIM MARKETS COMPANY	273	12.3	11.8	21.3	19.0
SAVOLA GROUP COMPANY	6,542	10.4	10.3	26.9	21.8
BinDawood Holding	2,220	12.0	10.9	27.3	23.5
Al Dawaa Medical Services Company	2,054	10.0	9.4	19.3	16.4
<b>Average</b>		<b>11.7x</b>	<b>11.0x</b>	<b>23.1x</b>	<b>19.5x</b>
<b>Median</b>		<b>12.0x</b>	<b>10.9x</b>	<b>24.1x</b>	<b>20.4x</b>
<b>Max</b>		<b>12.1x</b>	<b>11.1x</b>	<b>27.0x</b>	<b>22.2x</b>
<b>Min</b>		<b>11.6x</b>	<b>10.8x</b>	<b>20.2x</b>	<b>17.7x</b>

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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