

Jarir Marketing Company

Change in business mix & higher OPEX dragged bottom line

1Q23 Net Profit marginally lower than our estimate

Jarir Marketing Co ("JARIR", "The Company") reported a marginal decline in net profit from SAR 251 Mn in 1Q22 to SAR 248 Mn in 1Q23, slightly lower than our estimate of SAR 258 Mn. The marginal decline in net profit is mainly attributable to change in business mix along with the rise in selling and marketing expenses for the promotion of sales partially offset by growth in other revenue.

P&L highlights

The Company's revenue rose significantly 18.8% YOY to SAR 2,718 Mn in 1Q23 attributable to solid growth in sales of smartphones and video games. On the other hand, the cost of sales rose 22.0% YOY to SAR 2,394 Mn in 1Q23. Thus, gross profit declined marginally 0.4% YOY to SAR 323.7 Mn as the opening up of schools for the first time after COVID-19 in 1Q22 witnessed a sharp rise in the sale of school supplies. The gross profit margin declined from 14.2% in 1Q22 to 11.9% in 1Q23 due to the change in business mix. Furthermore, the Company's operating profit declined 4.4% YOY to SAR 277 Mn in 1Q23 owing to an increase in selling and marketing expenses to boost sales. The company's operating margin declined 198 bps YOY to 9.7% in 1Q23. However, growth in other revenue supported the bottom line.

Balance Sheet highlights

The company remained debt free with a cash balance of SAR 526 in 2022. Jarir generated SAR 999 Mn in cash flow from operating activities in 2022 as compared to SAR 1,428 Mn in 2021.

Target price and rating

We maintain our HOLD rating on JARIR with an unchanged target price of SAR 175.00. The company recorded a strong 18.8% increase in revenue in 1Q23 driven by robust electronics sales. 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 growth revenue from smart TVs segment to grow 20.0-25.0% and 5.0-10.0% growth in electronic games sales 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 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. It incurred additional marketing expenses to boost sales through promotional activities in 1Q23. Moreover, the company distributed a dividend of SAR 2.2 per share for three months ending March 2023. Furthermore, the Company is trading at an attractive yield of 4.6% in 2023. Considering all these factors, we assign a HOLD rating on the stock.

Rating : HOLD

First Look Note – 1Q23

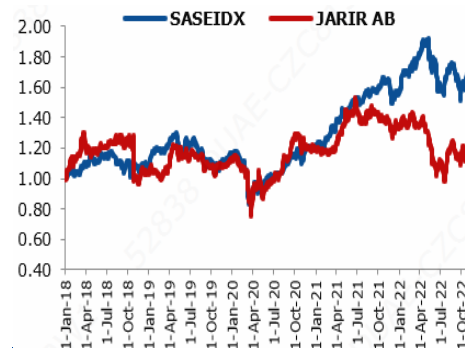
Sector: Consumer Discretionary

Recommendation

| | |
|---------------------------|--------|
| Current Price (24-Apr-23) | 168.00 |
| Target Price (SAR) | 175.00 |
| Upside/Downside (%) | +4% |

Stock Information

| | |
|---------------------------|------------|
| Market Cap (mm) | 20,160.00 |
| Paid Up Capital (mm) | 1,200.00 |
| 52 Week High | 197.20 |
| 52 Week Low | 141.60 |
| 3M Avg. daily value (SAR) | 26,993,110 |



Financial Ratios

| | |
|--------------------------|-------|
| Dividend Yield (12m) | 4.73 |
| Dividend Pay-out (%) | 95.28 |
| Price-Earnings Ratio (x) | 20.79 |
| Price-to-Book Ratio (x) | 11.19 |
| Book Value (SAR) | 15.01 |
| Return-on Equity (%) | 54.32 |
| Earning Per Share (SAR) | 8.08 |
| Beta | 0.69 |

Stock Performance

| | |
|-----------------------|---------|
| 5 Days | 3.32% |
| 1 Months | 6.33% |
| 3 Months | 11.55% |
| 6 Months | 0.36% |
| 1 Year | -13.31% |
| Month to Date (MTD) | 3.07% |
| Quarter to Date (QTD) | 3.07% |
| Year to Date (YTD) | 12.00% |

JARIR - Relative valuation

| (at CMP) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023F |
|----------------|-------|-------|-------|-------|-------|-------|
| PE(X) | 21.00 | 20.47 | 20.10 | 20.33 | 20.79 | 19.96 |
| PB(X) | 11.86 | 12.25 | 11.69 | 11.40 | 11.19 | 10.88 |
| EV/EBITDA | 19.61 | 16.84 | 16.03 | 16.22 | 16.56 | 15.96 |
| Dividend yield | 5.4% | 4.9% | 4.6% | 4.7% | 4.6% | 4.6% |

FABS Estimates & Co Data

JARIR - P&L

| SAR mm | 1Q22 | 4Q22 | 1Q23 | 1Q23F | Var. | YOY Ch | QOQ Ch | 2022 | 2023F | Change |
|-------------------------|------------|------------|------------|------------|---------------|--------------|--------------|--------------|--------------|-------------|
| Sales | 2,287 | 2,577 | 2,718 | 2,405 | 13.0% | 18.8% | 5.4% | 9,392 | 9,978 | 6.2% |
| Cost of Sales | -1,962 | -2,236 | -2,394 | -2,045 | 17.1% | 22.0% | 7.1% | -8,104 | -8,581 | 5.9% |
| Gross profit | 325 | 341 | 324 | 361 | -10.3% | -0.4% | -5.2% | 1,287 | 1,397 | 8.5% |
| Operating profit | 268 | 268 | 265 | 277 | -4.4% | -1.3% | -1.1% | 1,019 | 1,063 | 4.3% |
| Net Profit | 251 | 268 | 248 | 258 | -4.0% | -1.4% | -7.4% | 970 | 1,010 | 4.2% |

FABS Estimates & Co Data

JARIR - Margins

| | 1Q22 | 4Q22 | 1Q23 | YOY Ch | QOQ Ch | 2022 | 2023F | Change |
|------------------|-------|-------|-------|--------|--------|-------|-------|--------|
| Gross profit | 14.2% | 13.2% | 11.9% | -230 | -134 | 13.7% | 14.0% | 29 |
| Operating Profit | 11.7% | 10.4% | 9.7% | -198 | -65 | 10.8% | 10.7% | -19 |
| Net Profit | 11.0% | 10.4% | 9.1% | -187 | -126 | 10.3% | 10.1% | -20 |

FABS estimate & Co Data

Valuation:

We use Discounted Cash Flow (DCF), Dividend Discount Model (DDM), and Relative Valuation (RV) method to value Jarir. We have assigned 50% weight to DCF, and 25% weight each to DDM and RV method.

| Valuation Method | Target | Weight | Weighted Value |
|---|--------|--------|----------------|
| Discounted Cash Flow (DCF) | 192.1 | 50.0% | 96.0 |
| Dividend Discount Model (DDM) | 171.7 | 25.0% | 42.9 |
| Relative Valuation (RV) | 144.1 | 25.0% | 36.0 |
| Weighted Average Valuation (SAR) | | | 175.0 |
| Current market price (SAR) | | | 168.0 |
| Upside/Downside (%) | | | +4.2% |

1) Discounted Cash Flow (DCF) Method:

Jarir is valued using Free Cash Flow to Equity (FCFE) since it is debt free. We have discounted the cash flow using the cost-of-equity of 8.6%. Cost of equity is calculated by using 10-year government bond yield of 4.3%, beta of 0.77 and equity risk premium of 5.6%. Government bond yield is calculated after adding KSA 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

| | |
|--|---------------|
| Sum of PV (SAR, Mn) | 5,350 |
| Terminal value (SAR, Mn) | 17,700 |
| FV to Common shareholders (SAR, Mn) | 23,051 |
| No. of share (Mn) | 120.0 |
| Current Market Price (SAR) | 168.0 |
| Fair Value per share (SAR) | 192.1 |

DCF method

| (All Figures in SAR Mn) | FY 2023E | FY 2024E | FY 2025E | FY 2026E | FY 2027E |
|--|--------------|--------------|--------------|--------------|--------------|
| Cash Flow from Operation (CFO) | 1,229 | 1,307 | 1,466 | 1,534 | 1,634 |
| (-) Capex | -112 | -119 | -127 | -124 | -120 |
| Net Change in Lease | 26 | 29 | 32 | 34 | 36 |
| Free Cash Flow to Equity (FCFE) | 1,143 | 1,217 | 1,371 | 1,443 | 1,550 |
| Discounting Factor | 0.94 | 0.87 | 0.80 | 0.74 | 0.68 |
| Discounted FCFE | 1,079 | 1,058 | 1,097 | 1,064 | 1,052 |

2) Dividend Discount Model (DDM) Method:

Jarir dividend grew in line with profit and pays regular dividend to its shareholders. Thus, we have valued Jarir using DDM valuation method. Dividend is discounted at the cost of equity of 8.6%.

| | |
|--|---------------|
| Sum of PV (SAR, Mn) | 4,730 |
| Terminal value (SAR, Mn) | 15,878 |
| FV to Common shareholders (SAR, Mn) | 20,608 |
| No. of shares (Mn) | 120.0 |
| Current Market Price (SAR) | 168.0 |
| Fair Value per share (SAR) | 171.7 |

DDM method

| (All Figures in SAR Mn) | FY 2023E | FY 2024E | FY 2025E | FY 2026E | FY 2027E |
|----------------------------------|------------|--------------|--------------|--------------|--------------|
| Dividend paid | | | | | |
| 1Q | 236 | 269 | 302 | 332 | 349 |
| 2Q | 180 | 206 | 233 | 244 | 261 |
| 3Q | 278 | 309 | 339 | 366 | 394 |
| 4Q | 273 | 303 | 339 | 358 | 387 |
| Total Dividend | 967 | 1,086 | 1,214 | 1,299 | 1,390 |
| Discounting Factor | 0.94 | 0.87 | 0.80 | 0.74 | 0.68 |
| Present Value of Dividend | 913 | 944 | 972 | 958 | 944 |

3) Relative Valuation (RV) Method:

We have used local peers to value Jarir and it is valued using the EV/EBITDA multiple. We have applied premium to the peers valuation multiple since it has always traded at premium. We expect this premium in valuation to maintain continue due to superior return on equity and dividend yield. It is valued at EV/EBITDA of 14.3x as compared to peer valuation of 8.9x.

| Company | Market | EV/EBITDA (x) | | PE (x) | | Dividend Yield (%) | |
|----------------|----------|---------------|------|--------|-------|--------------------|------|
| | (USD Mn) | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 |
| Extra | 1,518 | 9.1x | 8.6x | 13.2x | 11.8x | 4.7% | 5.2% |
| SACO | 288 | 8.7x | 8.2x | 31.9x | 18.3x | 4.5% | 5.4% |
| Hassan Shaker | 269 | 10.8x | 9.6x | 13.5x | 11.5x | - | 3.9% |
| Cenomi Retail | 499 | 1.3x | 1.3x | 25.4x | 18.3x | - | 1.5% |
| | | | | | | | |
| Average | | 7.5x | 6.9x | 21.0x | 15.0x | 4.6% | 4.0% |
| Median | | 8.9x | 8.4x | 19.5x | 15.1x | 4.6% | 4.6% |
| Max | | 9.5x | 8.8x | 27.0x | 18.3x | 4.7% | 5.3% |
| Min | | 6.9x | 6.4x | 13.4x | 11.7x | 4.6% | 3.3% |

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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