**Target Price: SAR19/share**
Current Price: SAR16.6/share
Upside: 14.5% (+Div. Yield: 5%)
**Rating: Overweight**

# Jarir Marketing Company (Jarir)

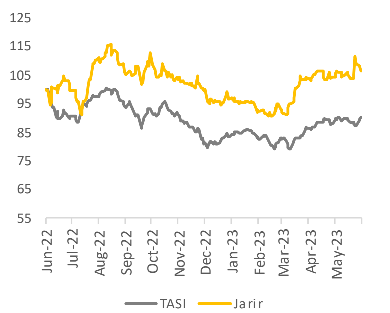
## *Maintain Overweight rating*

- A surprisingly strong sales growth in 1Q23 was led almost all by e-commerce (mainly smartphone segment). 2Q23 is likely to be relatively weaker in view of competition and seasonality.
- With a low margin for e-commerce channel as well as electronics category, gross profits de-grew y/y in 1Q23 despite improvement in BNPL/consumer financing.
- We expect the competitive environment to continue and trim our TP to SAR19/share (from SAR19.5/share) but continue with an Overweight rating given the growth drivers.

| Stock data | |
|---|---|
| TASI ticker | 4190 |
| Mcap (SARmn) | 20,112 |
| Trd. Val (3M) (SARmn) | 42.3 |
| Free float | 72.6% |
| QFI holding | 13.6% |
| TASI FF weight | 0.95% |

*Source: Bloomberg*

Prices indexed to 100




*Source: Bloomberg*

**Growth drivers:** Much like the global consumer electronics (CE) market, the Saudi CE market remains competitive in Saudi. We discuss key points in 2023 so far:

**1) E-commerce channels**: E-commerce sales continued to grow strongly (SAR484mn increase y/y in 1Q23 vs total sales increase of SAR431mn), with 24% of sales in 1Q23 (from 8% in 1Q22). Naturally, store LFL sales was down 3.4% y/y, even as footfall grew 1% q/q. As a result of the increasing e-commerce sales, only 1 store (net) was added in 2022. We believe the company is now expanding stores outside KSA - 2 new stores ex-KSA out of the total of 5 stores to be opened in 2023. Notably E-commerce had a net margin of 5% in 2022 vs group level 10%. Also, limited new store openings imply limited other income growth.

**2) BNPL contributed to 16% in sales vs. 7% in 1Q22:** We believe that much of this e-comm. growth has been driven by BNPL (mainly in smartphone category). With a revenue sharing model in place with BNPL now, such services helped generate ~SAR10mn for Jarir which would directly add to Jarir's bottom-line (4% in 1Q23). Given the successful tie up with Tamara, a tie up with Tabby is now expected from July 1. Also, the company makes a cut on loan guarantees provided by financing companies such as Emkan without having receivables risk.

**3) Other drivers:** The company has been continuously innovating trying to add value. For example, the Smart TVs segment contributed ~SAR100mn last year and is expected to grow to SAR500mn by FY25e, being well into the learning curve for this category. This segment has better margins than phones. High margin servicing (not just for Jarir purchase) may be another

*Figure 1: Key financial metrics*

| SARmn | 2021a | 2022a | 2023e | 2024e |
|---|---|---|---|---|
| Revenue | 9,088 | 9,392 | 10,460 | 11,114 |
| *Revenue growth* | *-2%* | *3%* | *11%* | *6%* |
| Gross Profit | 1,229 | 1,287 | 1,356 | 1,467 |
| *Gross Profit margin* | *13.5%* | *13.7%* | *13.0%* | *13.2%* |
| EBITDA | 1,198 | 1,167 | 1,216 | 1,303 |
| Op. income | 1,061 | 1,019 | 1,069 | 1,156 |
| Net profit | 992 | 970 | 994 | 1,079 |
| *Net profit margin* | *10.9%* | *10.3%* | *9.5%* | *9.7%* |
| EPS (SAR) | 0.83 | 0.81 | 0.83 | 0.90 |
| DPS (SAR) | 0.79 | 0.77 | 0.82 | 0.85 |
| P/E | 20.3x | 20.8x | 20.3x | 18.7x |

*Source: Company, GIB Capital*

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business segment targeted by the company. Any contribution from Apple's Vision Pro would be a positive trigger. AI-based targeted spending with a database of 14mn customers will lower marketing costs and improve sales. A new iPhone announcement expected later in the year and back to school season will ensure better numbers in 2H. However, in view of Extra's mega sales event, Jarir's 2Q23 is likely to be weaker.

**1Q23 results summary:** The company posted strong topline growth of 18.8% y/y, supported by smartphone and video game sales growth. The gross margin declined 2.3ppt y/y due to a change in sales mix and reached 11.9%. The operating margin fell 2ppt y/y to 9.7% due to higher selling and marketing expenses. Net margin slipped 1.9ppt y/y to 9.1%.

**Risks:** Key downside risks are global recessions/demand weakness, a structural shift to online education models, aggressive competition, entry of newer online players, global supply chain issues, and one-sided related party transactions.

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