

Target Price: SAR16.50/share
Current Price: SAR13.08/share
Upside: +26% (+Div. Yield: 5.9%)
Rating: Overweight

Jarir Marketing Company (Jarir)

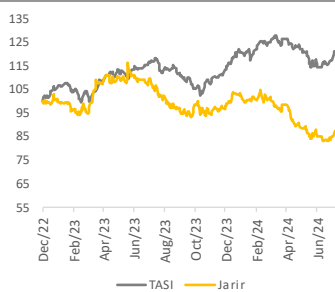
Near-term headwinds, TP revise to SAR16.5/sh.

Stock data

TASI ticker	4190
Mcap (SARmn)	15,696
Trd. Val (3m) (SARmn)	29.8
Free float	72.6%
QFI holding	12.3%
TASI FF weight	0.65%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

- Jarir's top line surged by 8.8% y/y to SAR2,650mn (flat q/q), with gross margin expanding y/y for the first time since 4Q22. Net income rose by 9.8% y/y to SAR171mn.
- Structural industry headwinds to limit growth, with revenue expected to grow at a moderate 3.1% CAGR over 2023-28e and earnings at 2.9% CAGR during the period.
- Our blended 1-year forward TP stands at SAR16.5/share, with an Overweight rating and an upside of 26%.

2Q24 results: Jarir's top line increased by 8.8% y/y (flat sequentially), reaching SAR2,650mn, higher than our (+7.4%) and consensus (+8.4%) estimates. Preliminary results indicate growth across various segments, with the smartphone, computer, and video game section leading the charge. The gross margin remained steady on a y/y basis at 9.9%, exceeding our estimate of 9.4%. This positive surprise is likely due to a higher-than-anticipated contribution from higher-margin products within the sales mix. Subsequently, the operating margin remained stable at 7.1% for 2Q24, unchanged from the previous year. This resulted in net income rising by 9.8% y/y, reaching SAR171mn. The bottom line beat our estimate of SAR150mn primarily due to topline and GPM beat.

Industry headwinds continue to limit the growth: The retail sector faces several structural challenges, mainly due to i) lower consumers' discretionary spending due to rising living expenses (as witnessed in weak consumer electronics POS data which has been declining y/y since 2Q21; Figure 3), ii) a shift in consumer behavior towards other discretionary spending (Figure 4) over traditional retail purchases, and iii) high interest rate environment curbing the borrowed consumer financing. Furthermore, increasing digitization is also affecting sales of higher-margin office and school supplies. Overall, we expect the KSA retail market to face continued weakness in 2024-25e. However, interest rate normalization beyond this period may improve discretionary spending gradually. Accordingly, we expect Jarir's revenue to grow at a moderate 3.1% CAGR over 2023-28e (+7.6% CAGR 2018-2023).

Figure 1: Key financial metrics

SARmn	2022a	2023a	2024e	2025e
Revenue	9,392	10,595	11,068	11,387
Revenue growth	3%	13%	4%	3%
Gross Profit	1,287	1,276	1,295	1,332
Gross Profit margin	13.7%	12.0%	11.7%	11.7%
EBITDA	1,167	1,209	1,215	1,247
Op. income	1,019	1,045	1,061	1,090
Net profit	970	973	983	1,003
Net profit margin	10%	9%	9%	9%
EPS (SAR)	0.81	0.81	0.82	0.84
DPS (SAR)	0.77	0.83	0.78	0.79
P/E	16.2x	16.1x	16.0x	15.7x

Source: Company data, GIB Capital

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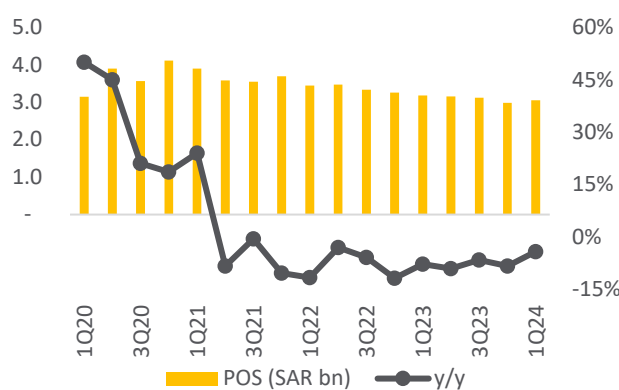
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Figure 2: 2Q24 results summary

SAR mn	2Q24	2Q23	y/y %	1Q24	q/q %	GIBCe	Variance %
Revenues	2,650	2,436	8.8%	2,650	0.0%	2,467	7.4%
Cost of Goods	2,388	2,196	8.7%	2,355	1.4%	2,235	6.8%
Gross Profit	263	240	9.6%	295	-10.9%	232	13.2%
Opex	74	65	13.4%	57	28.5%	64	15.2%
Operating Profit	189	175	8.1%	238	-20.4%	168	12.5%
Net Income	171	156	9.8%	219	-22.0%	150	14.3%
Gross Margin	9.9%	9.8%		11.1%		9.4%	
Operating Margin	7.1%	7.2%		9.0%		6.8%	
Net Profit Margin	6.5%	6.4%		8.3%		6.1%	

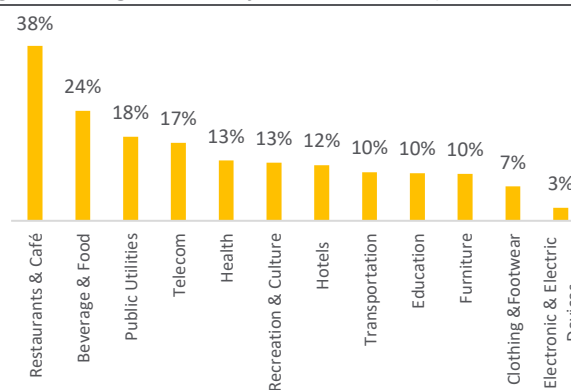
Source: Company data, GIB Capital

Figure 3: Trend in electronic & electric devices POS sales (SARbn)



Source: SAMA monthly bulletin, GIB Capital

Figure 4: POS growth trend for various sectors (CAGR 2016-23)



Source: SAMA monthly bulletin, GIB Capital

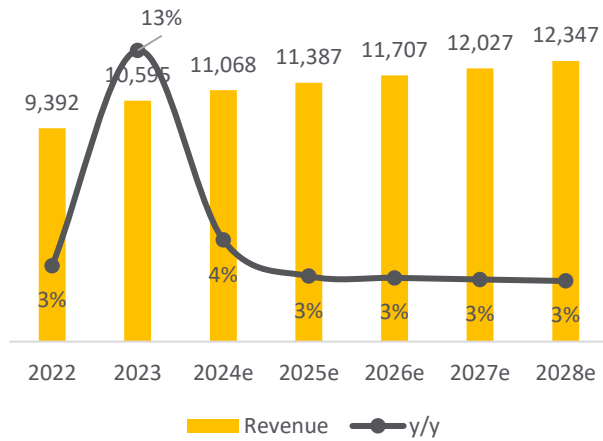
Margins likely to remain under pressure: Jarir's gross margin has been declining y/y for the past 5 quarters. While 2Q24 marks the first increase after that timeframe, maintaining or improving margins in the coming quarters remains a key area of focus going forward. As the retail industry in KSA remains highly competitive, we expect Jarir to continue to offer discounts (mostly on smartphones and computer segments) to protect its market share as well as to drive demand. This, along with structural changes in the revenue mix with lowering contribution from high-margin office and school supplies and improving e-commerce business is expected to keep the gross margins under check in 2024-25e. Consequently, we expect gross margins to remain low at around 11.7% in 2024-25e before expecting a gradual recovery from 2026 onwards.

Robust dividend payout: Jarir has a strong track record of shareholder returns, with a historical payout ratio of 95-100%. Given Jarir's robust free cash flow generation, clean balance sheet, and low debt, we expect Jarir to maintain a payout ratio of ~95% over the medium term, implying a DPS of SAR0.78/0.79 for 2024-25e with an industry-leading dividend yield of ~6%, significantly higher than its closest peer Extra (4.4-5.0%).

Valuation and risks: We value Jarir using a blended valuation approach with an equal mix of DCF and P/E multiple. As for DCF, based on a WACC of 9%, we derive SAR16.8/share as the DCF-based 1-year forward target price. For relative valuation, we apply a multiple of 18x to the average of 2024-25e EPS and arrive at a 1-year forward target price of SAR16.2/share. Overall, our blended 1-year forward TP stands at SAR16.5/share, with an Overweight rating and an upside of 26%. 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.

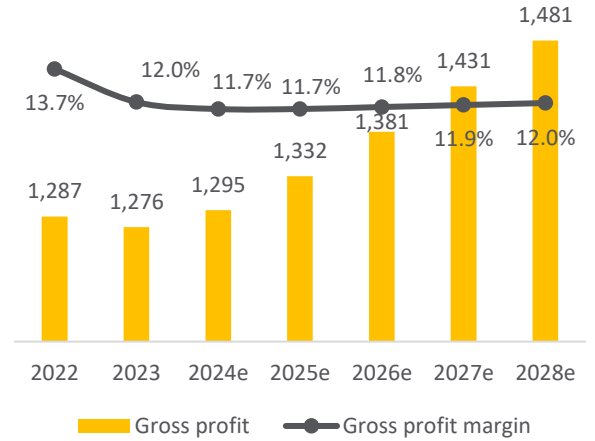
Financial analysis in charts

Figure 5: Revenue trend (SARmn)



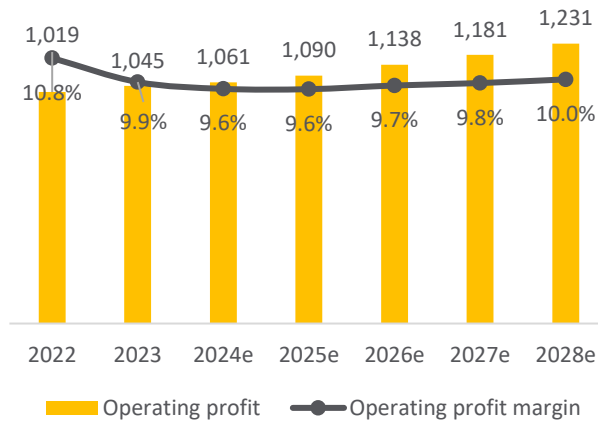
Source: Company data, GIB Capital

Figure 6: Gross profit and gross margin trend (SARmn)



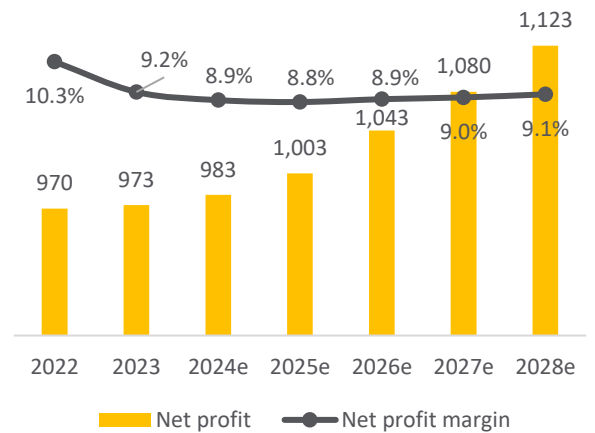
Source: Company data, GIB Capital

Figure 7: Operating profit and operating margin trend (SARmn)



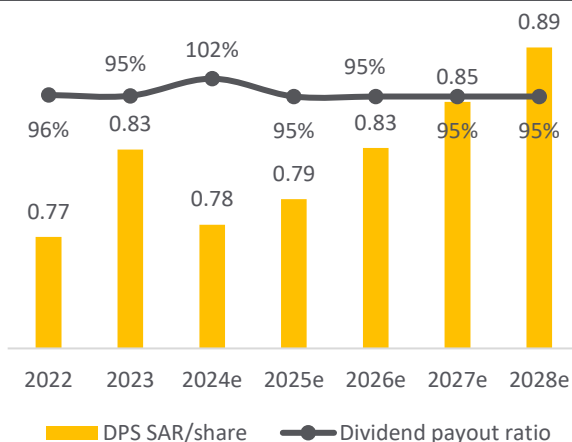
Source: Company data, GIB Capital

Figure 8: Net income trend (SARmn)



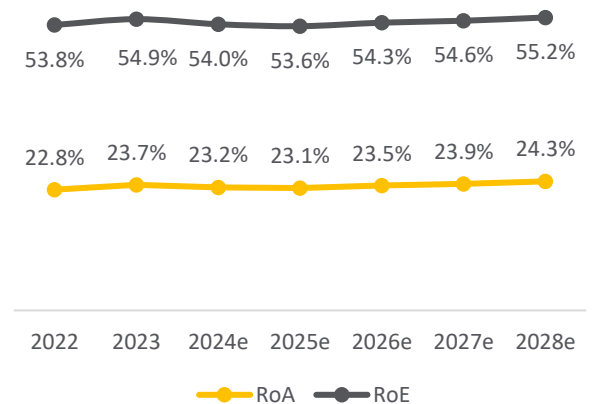
Source: Company data, GIB Capital

Figure 9: Dividend trend



Source: Company data, GIB Capital

Figure 10: RoA and RoE trend



Source: Company data, GIB Capital

Financials

Figure 11: Summarized basic financial statements (SARmn)

Income statement	2022	2023	2024e	2025e
Revenue	9,392	10,595	11,068	11,387
Revenue y/y	3%	13%	4%	3%
COGS	8,104	9,319	9,774	10,055
Gross Profit	1,287	1,276	1,295	1,332
Gross Profit margin	14%	12%	12%	12%
Sales & Marketing	194	167	168	173
G&A	132	136	142	148
Operating profit	1,019	1,045	1,061	1,090
Operating margin	11%	10%	10%	10%
Finance costs	(41)	(47)	(55)	(62)
Net income	970	973	983	1,003
Net margin	10.3%	9.2%	8.9%	8.8%
y/y	-2.2%	0.3%	1.0%	2.1%
EPS	0.81	0.81	0.82	0.84
DPS	0.77	0.83	0.78	0.79
Payout	95.3%	102%	95%	95%
EBITDA	1,167	1,209	1,215	1,247
Balance Sheet	2022	2023	2024e	2025e
Inventories	1,319	1,648	1,728	1,778
Accounts and Notes Receivable	193	221	231	237
Prepaid Expenses and Other	295	292	292	292
Cash and Equivalents	526	50	144	252
Total Current Assets	2,334	2,211	2,395	2,560
Right of Use Assets	591	583	600	616
Property Plant & Equipment - Net	1,015	995	921	843
Total Non-Current Assets	1,924	1,899	1,842	1,781
Total Assets	4,257	4,110	4,237	4,341
Current Liabilities	1,696	1,572	1,625	1,659
Non-current Liabilities	760	767	791	812
Equity	1,802	1,772	1,821	1,871
Total Equity and Liabilities	4,257	4,110	4,237	4,341
BVPS	1.5	1.5	1.5	1.6
Cashflow	2022	2023	2024e	2025e
Cashflow from Operations	999	689	1,108	1,142
Cashflow from Investing	122	-65	-80	-80
Cashflow from Financing	-1,027	-1,098	-934	-954
Total Cashflows	94	-474	94	109

Source: Company, GIB Capital

Figure 12: Key ratios

Key ratios	2022	2023	2024e	2025e
Profitability ratios				
RoA	23%	24%	23%	23%
RoE	54%	55%	54%	54%
Sales/Assets	221%	258%	261%	262%
Net margin	10.3%	9.2%	8.9%	8.8%
Liquidity ratios				
Current Assets/ Current Liabilities	1.4	1.4	1.5	1.5
Receivable Days	8	8	8	8
Inventory Days	59	65	65	65
Payable days	58	43	43	43
Debt ratios				
Net Debt/EBITDA (w/o IFRS liab.)	-0.5	0.0	-0.1	-0.2
Net Debt/EBITDA (w/ IFRS liab.)	0.2	0.5	0.5	0.4
Debt/Assets (w/o IFRS liab.)	0.0	0.0	0.0	0.0
Debt/Equity (w/o IFRS liab.)	0.0	0.0	0.0	0.0
Valuation ratios				
P/E	16.2	16.1	16.0	15.7
P/B	8.7	8.9	8.6	8.4
EV/EBITDA	14.3	13.8	13.8	13.4
Div. yield	5.9%	6.3%	5.9%	6.1%

Source: Company, GIB Capital

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