

Target Price: SAR16.5/share
Current Price: SAR13.0/share
Upside: 27% (+Div. Yield: 5.9%)
Rating: Overweight

Jarir Marketing Company (Jarir)

3Q24 earnings in line; Maintain TP at SAR16.5/sh.

Stock data

TASI ticker	4190
Mcap (SARmn)	15,600
Trd. Val (3m) (SARmn)	23.1
Free float	72.6%
QFI holding	13.1%
TASI FF weight	0.66%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

- 3Q top line remained largely flat (y/y & q/q), with gross margin expanding ~1 ppt y/y. Net income rose by 4.0% y/y to SAR308mn, in line with our estimate.
- We maintain our top-line estimate at 3.1% CAGR over 2023-28e, but slightly revising our earnings growth upwards to 3.2% CAGR (vs. +2.9% earlier) on better margins.
- Our blended 1-year forward TP stands at SAR16.5/share, with an Overweight rating and an upside of 27%.

3Q24 earnings in line: Jarir's revenue remained largely flat both y/y and sequentially, reaching SAR2.7bn, which was 5.4% below our estimate. Preliminary results indicate a marginal 1% y/y growth, primarily driven by the smartphone, computer, and video game segments. This result also highlights sales of stationery products likely underperformed, despite 3Q24's back-to-school season (traditionally the strongest quarter). However, the gross margin expanded to 15.5%, up from 14.6% in 3Q23, and exceeded our estimate of 14.5%, mainly driven by improved margins on smartphones due to higher vendor discounts (likely to be one-off in our view). Notably, this is the second consecutive quarter of y/y gross margin improvement. Further, the gross margin expansion resulted in a 5% y/y rise in operating profit, offsetting higher operating expenses (+21.1% y/y increase). As a result, the operating margin improved slightly to 12.4% for 3Q24, compared to 12.0% in the same period last year. Overall, Jarir's net income increased by 4.0% y/y, reaching SAR308mn, in line with our estimate of SAR311mn.

Industry headwinds continue to limit the growth: As discussed in our last note, the KSA retail sector faces several structural challenges, including reduced discretionary spending due to rising living costs, shifting consumer preferences towards non-traditional retail, and the impact of relatively high interest rates on consumer financing. Additionally, increased digitization is also affecting sales of higher-margin office and school supplies. These factors are contributing to muted topline growth for Jarir, which we expect to persist through 2024-25e. Further, we expect a moderate recovery from 2026e onwards, as discretionary spending may improve with interest rate normalization.

Figure 1: Key financial metrics

SARmn	2022a	2023a	2024e	2025e
Revenue	9,392	10,595	10,883	11,197
Revenue growth	3%	13%	3%	3%
Gross Profit	1,287	1,276	1,314	1,344
Gross Profit margin	13.7%	12.0%	12.1%	12.0%
EBITDA	1,167	1,209	1,209	1,239
Op. income	1,019	1,045	1,050	1,077
Net profit	970	973	975	1,006
Net profit margin	10%	9%	9%	9%
EPS (SAR)	0.81	0.81	0.81	0.84
DPS (SAR)	0.77	0.83	0.77	0.80
P/E	16.1x	16.0x	16.0x	15.5x

Source: Company data, GIB Capital

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Outlook: Post 3Q results, we broadly maintain our top-line estimate, growing at 3.1% CAGR from 2023-28e, aided by the store expansion, along with relatively stable revenue per showroom. However, margins are likely to remain under check due to heightened competition, discounts, and a shift away from higher-margin products. Accordingly, we expect Jarir's average gross and operating margins at 12.1% (11.8% earlier) and 9.8% (broadly unchanged), respectively over 2024-28e. This, coupled with likely lower financial costs, is expected to drive earnings growth (+3.2% CAGR vs. +2.9% CAGR earlier) over the same period.

Further, we expect Jarir to maintain a strong history of delivering shareholder returns, with a dividend payout ratio, ranging from 95-100% historically. Given its robust free cash flow, healthy balance sheet, and low debt levels, we expect the company to maintain a payout ratio of ~95% over the medium term, translating to a DPS of SAR0.77/share for 2024e and SAR0.80/share for 2025e, implying an industry-leading dividend yield of 5.9-6.1%, higher than its closest peer, Extra (4.2-4.9%).

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 SAR16.9/share as the DCF-based 1-year forward target price. For relative valuation, we apply a multiple of 18x on 2025e 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 27%. 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.

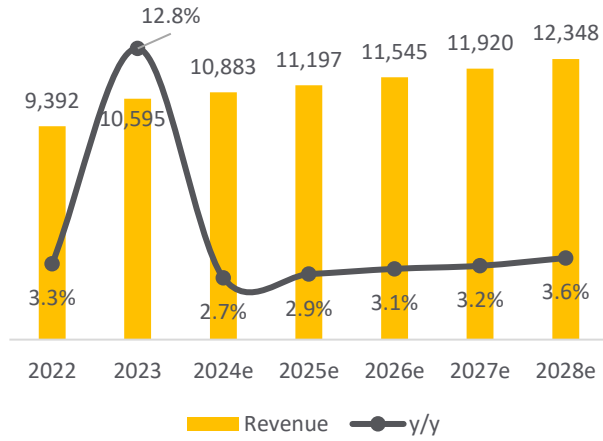
Figure 2: 3Q24 results summary

SAR mn	3Q24	3Q23	y/y %	2Q24	q/q %	GIBC est.	Variance %
Revenues	2,667	2,639	1.0%	2,650	0.6%	2,819	-5.4%
Cost of sales	2,252	2,255	-0.1%	2,388	-5.7%	2,410	-6.5%
Gross profit	415	384	7.9%	263	57.9%	409	1.4%
Opex	83	68	21.1%	74	12.5%	76	8.9%
Operating profit	332	316	5.0%	189	75.6%	333	-0.3%
Net income	308	296	4.0%	171	80.1%	311	-0.9%
Margins							
Gross margin	15.5%	14.6%	0.98bps	9.9%	5.64bps	14.5%	1.05bps
Operating margin	12.4%	12.0%	0.47bps	7.1%	5.31bps	11.8%	0.64bps
Net margin	11.6%	11.2%	0.33bps	6.5%	5.1bps	11.0%	0.53bps

Source: Company data, GIB Capital

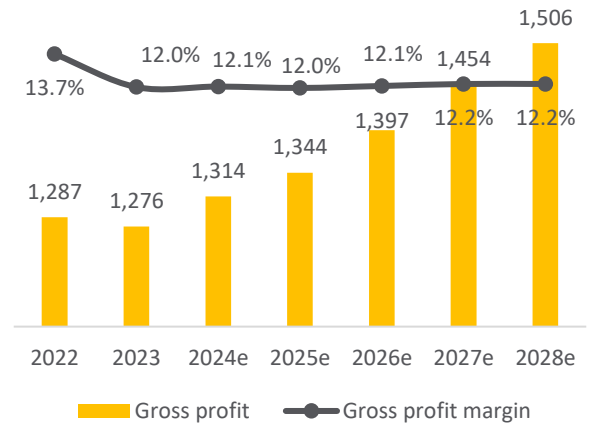
Financial analysis in charts

Figure 3: Revenue trend (SARmn)



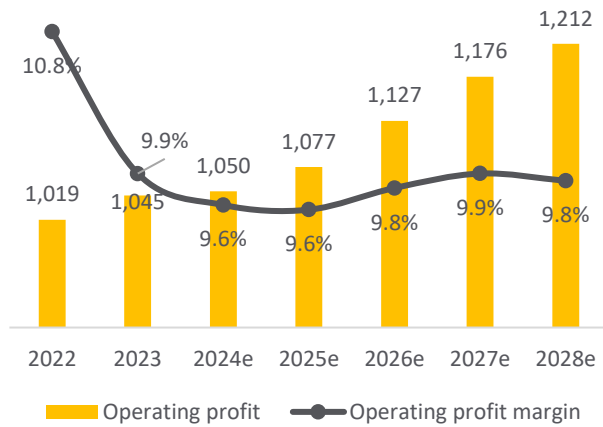
Source: Company data, GIB Capital

Figure 4: Gross profit and gross margin trend (SARmn)



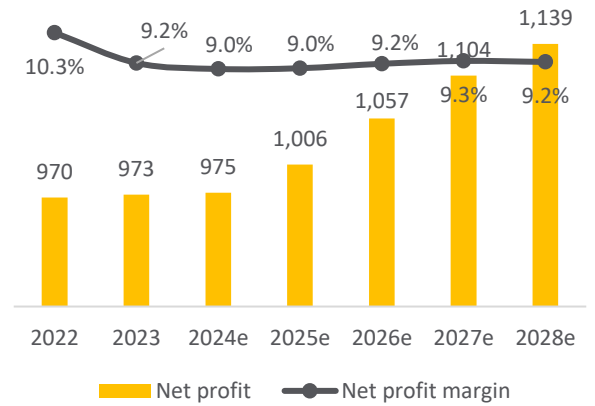
Source: Company data, GIB Capital

Figure 5: Operating profit and operating margin trend (SARmn)



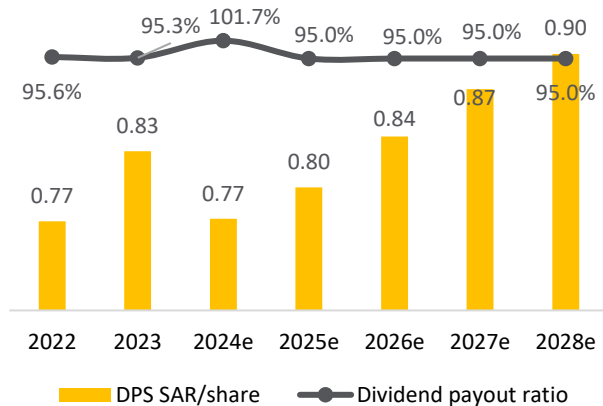
Source: Company data, GIB Capital

Figure 6: Net income trend (SARmn)



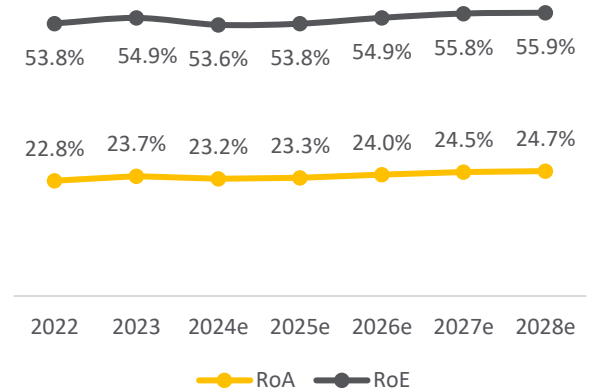
Source: Company data, GIB Capital

Figure 7: Dividend trend



Source: Company data, GIB Capital

Figure 8: RoA and RoE trend



Source: Company data, GIB Capital

Financials

Figure 9: Summarized basic financial statements (SARmn)

Income statement	2022	2023	2024e	2025e
Revenue	9,392	10,595	10,883	11,197
Revenue y/y	3%	13%	3%	3%
COGS	8,104	9,319	9,569	9,853
Gross Profit	1,287	1,276	1,314	1,344
Gross Profit margin	14%	12%	12%	12%
Sales & Marketing	194	167	184	189
G&A	132	136	146	146
Operating profit	1,019	1,045	1,050	1,077
Operating margin	11%	10%	10%	10%
Finance costs	(41)	(47)	(45)	(39)
Net income	970	973	975	1,006
Net margin	10.3%	9.2%	9.0%	9.0%
y/y	-2.2%	0.3%	0.2%	3.2%
EPS	0.81	0.81	0.81	0.84
DPS	0.77	0.83	0.77	0.80
Payout	95%	102%	95%	95%
EBITDA	1,167	1,209	1,209	1,239
Balance Sheet	2022	2023	2024e	2025e
Inventories	1,319	1,648	1,692	1,742
Accounts and Notes Receivable	193	221	227	233
Prepaid Expenses and Other	295	292	292	292
Cash and Equivalents	526	50	161	275
Total Current Assets	2,334	2,211	2,373	2,543
Right of Use Assets	591	583	600	616
Property Plant & Equipment - Net	1,015	995	916	833
Total Non-Current Assets	1,924	1,899	1,837	1,771
Total Assets	4,257	4,110	4,209	4,314
Current Liabilities	1,696	1,572	1,601	1,635
Non-current Liabilities	760	767	788	809
Equity	1,802	1,772	1,820	1,871
Total Equity and Liabilities	4,257	4,110	4,209	4,314
BVPS	1.5	1.5	1.5	1.6
Cashflow	2022	2023	2024e	2025e
Cashflow from Operations	999	689	1,118	1,151
Cashflow from Investing	122	-65	-80	-80
Cashflow from Financing	-1,027	-1,098	-927	-957
Total Cashflows	94	-474	111	114

Source: Company, GIB Capital

Figure 10: Key ratios

Key ratios	2022	2023	2024e	2025e
Profitability ratios				
RoA	23%	24%	23%	23%
RoE	54%	55%	54%	54%
Sales/Assets	221%	258%	259%	260%
Net margin	10.3%	9.2%	9.0%	9.0%
Liquidity ratios				
Current Assets/ Current Liabilities	1.4	1.4	1.5	1.6
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.)	1.4	1.4	1.5	1.6
Net Debt/EBITDA (w/ IFRS liab.)	8	8	8	8
Debt/Assets (w/o IFRS liab.)	59	65	65	65
Debt/Equity (w/o IFRS liab.)	58	43	43	43
Valuation ratios				
P/E	-0.5	0.0	-0.1	-0.2
P/B	0.2	0.5	0.5	0.4
EV/EBITDA	0.0	0.0	0.0	0.0
Div. yield	0.0	0.0	0.0	0.0
P/E	16.1	16.0	16.0	15.5
P/B	8.7	8.8	8.6	8.3
EV/EBITDA	14.0	13.5	13.5	13.2
Div. yield	5.9%	6.3%	5.9%	6.1%

Source: Company, GIB Capital

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