

### 1Q 2018 Results Update

May 24, 2018

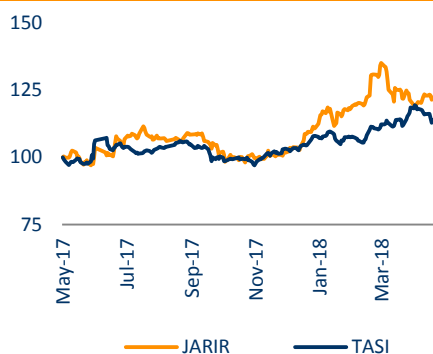
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	173.9
Target Price (SAR)	170.8
Upside/Downside (%)	-1.8%

As of May 23rd 2018

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	15.6
52 Wk High (SAR)	193.0
52 Wk Low (SAR)	136.8
Total Outstanding shares (in mn)	90.0
Free Float (%)	95.7%

#### JARIR vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	2.8%	5.4%
6m	22.9%	4.3%
12m	22.7%	7.6%

#### Major Shareholders (%)

Mohammed Abdulrahman Nasser Al - Aqeel	8.84%
Abdullah Abdul Rahman Nasser Al - Aqeel	8.61%
Abdul Nasser Al- Aqeel	8.60%

#### Quarterly Sales (SAR bn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 23<sup>rd</sup> May 2018

#### Jarir reported weak 1Q18 results, missing consensus estimates

Jarir Marketing Co. (Jarir) reported 1.1% YoY decline in 1Q18 net profit to SAR 219mn (below street estimates of SAR 230mn), driven by decline in sales from the wholesale segment, which missed peak school second term season as compared to 1Q17 since it fell in the fourth quarter of the previous year due to change in school calendar. However, the company plans to pay a 24% cash dividend worth SAR 216mn for 1Q 2018, at SAR 2.4 per share, consistent with its attractive dividend pay-out policy.

During the quarter, Jarir opened two new stores, in-line with its expansion plan to add six-to-seven more stores to its existing portfolio per annum. Higher costs associated with the new store openings were compensated by lower marketing and selling expenses. We believe the new allowances (such as citizenship program), will lower the impact of less subsidies and new reforms such as VAT and expat levy, and will continue to support margin expansion, albeit at a lesser pace than previous year.

- Jarir's top line declined 6.2% Y/Y and 20.0% Q/Q to SAR 1,599mn in Q1 2018, driven by a significant decline in sales in the wholesale segment (-54% YoY to SAR 61mn) and a slight decline in certain retail sections (-2.8% YoY to SAR1.5bn). A high sequential drop can be ascribed to the negative impact on the electronic and computer sales made pre-VAT during 4Q17 versus 1Q18.
- Gross profits declined 1.9% Y/Y and 20.8% Q/Q to SAR 243mn, while gross margins edged up 67bps YoY to 15.2% in 1Q18, supported by prudent inventory management and higher rebates.
- Consequently, the operating profits declined in-line with gross profits by 1.4% YoY and 14.7% QoQ to SAR 210mn, while margins improved 64bps to 13.1%, as operating expenses declined 5.2% YoY. At a segmental level, the income before Zakat for the retail segment grew 10.0% YoY to SAR 202mn (13.6% margins), while wholesale segment witnessed a sharp decline by 77% YoY to SAR 6mn (9.8% margins).
- Net profit for the period stood at SAR 219mn (+1.1% Y/Y) versus SAR252mn in the previous quarter, led by lower sales. We believe that the operational efficiencies supported the overall earnings performance despite steep decline in the revenues.
- Jarir's cash flow from operating activities declined 37.3% Y/Y to SAR 106mn in Q1 2018 (Q1 2017: SAR 169mn) due to an increase in inventories and advances and prepayments.
- Going forward, Jarir will be able to absorb the market share shift to organized retailers, through new store roll-outs (6-7 per annum). We expect the like for like growth to trend down in 2018 due to purchasing power headwinds, before recovering in 2019. Big retailers such as Jarir will be able to command better supplier terms and fade out some competition from pure-play ecommerce players through industry consolidation. We maintain a 'Neutral' stance on Jarir until we witness concrete signs of sales upturn and margin stabilization over the coming quarters.

**Valuation:** We have revised our target price upwards with a fair value of SAR 170.8 per share, post incorporating 1Q18 performance. We maintain our 'Neutral' rating on the stock.

	1Q'18	1Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR bn)	1.6	1.7	-6.2%	7.2	6.9	3.7%
Gross Profit (SAR bn)	0.2	0.2	-1.9%	1.1	1.0	2.3%
EBITDA (SAR bn)	0.2	0.2	-0.8%	0.9	0.9	7.3%
Net Profit (SAR bn)	0.2	0.2	-1.1%	0.9	0.9	6.5%
EPS basic (SAR)	2.4	2.5	-1.1%	10.3	9.6	6.6%
Gross Margin (%)	15.2%	14.5%	0.7%	14.7%	14.9%	-0.2%
EBITDA Margin (%)	14.0%	13.2%	0.8%	13.2%	12.7%	0.4%
Net Profit Margin (%)	13.7%	13.0%	0.7%	12.8%	12.5%	0.3%

Source: Company Financials, FALCOM Research

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FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

**Overweight:** The Target share price exceeds the current share price by  $\geq 10\%$ .

**Neutral:** The Target share price is either more or less than the current share price by 10%.

**Underweight:** The Target share price is less than the current share price by  $\geq 10\%$ .

**To be Revised:** No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

## FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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