

2Q20 Results Update

Recommendation	Neutral
Previous Recommendation	Overweight
Current Price (SAR)	177.0
Target Price (SAR)	167.0
Upside/Downside (%)	(5.6%)

As of September 15, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	21.2
52-wk High (SAR)	177.0
52-wk Low (SAR)	110.0
Total Outstanding shares (in mn)	120.0
Free Float (%)	89.0%

JARIR vs. TASI (Rebased)

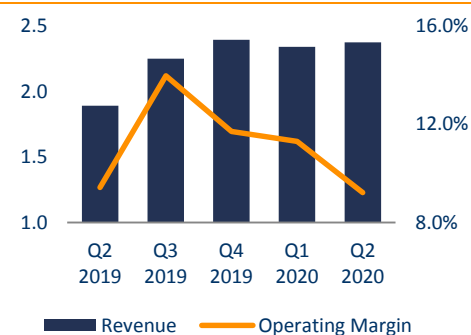


Price Performance (%)	Absolute	Relative
1m	4.7%	(3.3%)
6m	31.7%	(0.7%)
12m	11.2%	3.8%

Major Shareholders (%)

Jarir Investment Trading Company	21.83%
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Quarterly Sales (SAR bn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of September 15, 2020

October 05, 2020

Robust 2Q20 performance driven by higher online sales

Jarir's net profit expanded 23.2% YoY to SAR 208.4mn in 2Q20 owing to higher sales across its product segments, especially computers and computer supplies. Although operating profit surged 22.7% YoY to SAR 218.9mn as higher topline offset the increase in operating costs, the company's operating margins contracted during the quarter. The factors mentioned above, coupled with the reduction in financial charges, further lifted bottom line. However, net margin contracted 15.8 bps YoY to 8.8% in 2Q20.

Jarir's performance remained resilient to the COVID-19 pandemic and the subsequent economic uncertainty, as it generated 24.7% YoY rise in revenue to SAR 4.7bn and 14.2% YoY increase in net income to SAR 460.1mn during 1H20. Robust growth in topline was driven by increasing focus on e-commerce sales, which accounted for ~14% of the sales in 1H20 and offset the impact of showroom closures during the lockdown period. Improvement in sales mix toward higher margin products and increased sales of computers and IT supplies, mainly due to the implementation of work from home measures by corporates, also helped boost topline. Moreover, the company benefitted in 2Q20 from the announcement of VAT hike from 5% to 15%, as customers bought products in a bid to lock-in the lower VAT rate before July 1, when the new rate came to effect. Despite the strong performance in the first half of the year, we expect Jarir to face several headwinds heading into 3Q20. We anticipate demand for office and school supplies would continue to remain low, as corporates and schools move toward work from home and learn from home models, respectively. Moreover, we believe positive contribution from VAT hike in 2Q20 to be a one-off event, and the new measure is expected to hurt profitability going forward. Thus, in view of the factors mentioned above, we alter our rating to "Neutral" on the stock.

- Revenue increased 25.4% YoY to SAR 2.4bn due to higher sales across electronics, IT, and digital products, particularly computers and computer supplies. Revenue contribution from the retail and wholesale channels increased in 2Q20, whereas online sales picked up sharply during the quarter owing to the imposition of lockdown.
- Gross profit surged 29.9% YoY to SAR 303.7mn in 2Q20, as growth in cost of sales (up 24.8% YoY to SAR 2.1bn) was offset by the rise in topline. As a result, gross margin for the quarter expanded to 12.8% as against 12.4% in 2Q19.
- Operating profit (up 22.7% YoY to SAR 218.9mn) grew slower than gross profit on account of the sharp rise in operating expenses. Total SG&A expenses increased 53.0% YoY to SAR 84.8mn in 2Q20, which resulted in a contraction in operating margin to 9.2% as against 9.4% in 2Q19.
- Higher Zakat charges and lower other income were offset by reduced finance charges, resulting in 23.2% YoY rise in net profit to SAR 208.4mn in 2Q20. Consequently, net income margin slipped to 8.8% in 2Q20 compared with 8.9% in 2Q19.
- The company's Board of Directors recommended a cash dividend of SAR 1.7 per share for 2Q20, worth SAR 204.0mn. Total dividend for 1H20 thus stood at SAR 3.4 per share, amounting to SAR 408.0mn.
- Jarir added 1 new store during 2Q20, bringing its tally of showrooms to 61.

Valuation: We revised our target price at a fair value of SAR 167.0 per share and revise our rating to "Neutral".

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	2,374	1,893	25.4%	9,330	8,425	10.7%
Gross Profit (SAR mn)	304	234	29.9%	1,288	1,273	1.1%
EBITDA (SAR mn)	257	216	19.3%	1,090	1,167	(6.6%)
Net Profit (SAR mn)	208	169	23.2%	978	985	(0.7%)
EPS basic (SAR)	1.74	1.41	23.2%	8.15	8.21	(0.7%)
Gross Margin (%)	12.8%	12.4%	0.4%	13.8%	15.1%	(1.3%)
EBITDA Margin (%)	10.8%	11.4%	(0.6%)	11.7%	13.8%	(2.2%)
Net Profit Margin (%)	8.8%	8.9%	(0.2%)	10.5%	11.7%	(1.2%)

Source: Company Financials, FALCOM Research

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FALCOM Rating Methodology

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.

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