FALCOM

# Jarir Marketing Co.

Consumer Discretionary| Jarir | 4190

INTELLIGENT INVESTMENT IDEAS

## 3Q20 Results Update

December 31, 2020

| Recommendation | Neutral |
|---|---|
| Previous Recommendation | Neutral |
| Current Price (SAR) | 177.4 |
| Target Price (SAR) | 175.0 |
| Upside/Downside (%) | (1.4%) |

*As of December 23, 2020*

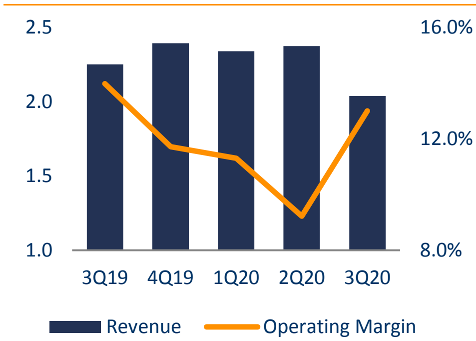
| Key Data (Source: Bloomberg) | |
|---|---|
| Market Cap (SAR bn) | 21.3 |
| 52-wk High (SAR) | 191.8 |
| 52-wk Low (SAR) | 110.0 |
| Total Outstanding shares (in mn) | 120.0 |
| Free Float (%) | 89.0% |

**JARIR vs. TASI (Rebased)**


| Price Performance (%) | Absolute | Relative |
|---|---|---|
| 1m | 1.1% | (0.1%) |
| 6m | 23.7% | 3.7% |
| 12m | 7.5% | 3.9% |

| Major Shareholders (%) | |
|---|---|
| Jarir Investment Trading Company | 21.83% |

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




*Source: Bloomberg, Company Financials, FALCOM Research; Data as of December 23, 2020*

**Subdued top line, increased VAT rate impact 3Q20 net profit**

Jarir's net profit narrowed 16.3% YoY to SAR 255.2mn in 3Q20, mainly due to a decline in sales of high-margin school and office supplies, in addition to a fall in sales of smartphones. Also, the implementation of a hike in VAT rate from 5% to 15% and the delayed launch of the new iPhone contributed to subdued sales during the quarter. Operating profit declined 15.8% YoY to SAR 265.1mn, in line with a 14.1% fall in gross profit; the operating margin narrowed by 97 bps YoY. The net margin contracted by 102.2 bps YoY to 12.5% in 3Q20. Furthermore, the negative impact during the back-to-school season resulted in an unfavorable sales mix for the quarter, thus contributing to a relative decline in margins.

Sequentially, net profit grew 22.5% to SAR 255.2mn, despite a 14.2% decline in the top line, mainly attributable to a 17.7% fall in the cost of sales that boosted gross profit by 10.1% to SAR 334.5mn. Given the hike in VAT rate and lower-than-expected sales from the school and office supplies segment, we expect the margin to remain under pressure in 4Q20. As remote learning is expected to continue in 4Q20 amid ongoing COVID-19 restrictions, revenue would be impacted due to less sales of school and office supplies. However, the launch of the new iPhone in the next quarter should boost smartphone sales. Going forward, the company's store expansion plans as well as the increasing penetration of online sales should drive its revenue. However, Jarir is expected to face several headwinds in 4Q20 as we anticipate muted demand for school and office supplies in the backdrop of COVID-19-related uncertainties. In view of the factors mentioned, we maintain our "Neutral" rating on the stock.

- Revenue decreased 9.5% YoY to SAR 2.0bn due to lower sales in the retail as well as wholesale segments, particularly in school and office supplies. This could be mainly attributed to the shift of education needs from the traditional format to remote learning to curb the spread of the pandemic. The implementation of a hike in VAT rate from 5% to 15%, along with the delayed launch of the new iPhone, also contributed to lower sales during the quarter.
- Gross profit fell 14.1% YoY to SAR 334.5mn in 3Q20 as the decline in cost of sales (down 8.5% YoY to SAR 1.7bn) was offset by the fall in top line. Thus, gross margin for the quarter narrowed by 87.3 bps YoY to 16.4% as against 17.3% in 3Q19.
- Operating profit (down 15.8% YoY to SAR 265.1mn) declined largely in line with the fall in gross profit. Total SG&A expenses decreased 6.8% YoY to SAR 69.4mn in 3Q20, resulting in a 97.21 bps YoY contraction in operating margin to 13.0% as against 14.0% in 3Q19.
- The significant reduction in finance charges was offset by reduced other income, resulting in a 16.3% YoY fall in net profit to SAR 255.2mn in 3Q20. Consequently, the net income margin slipped to 12.5% in 3Q20 compared with 13.5% in 3Q19.
- The company's Board of Directors recommended a cash dividend of SAR 2.1 per share for 3Q20, worth SAR 252.0mn. Total dividend for 9M20 thus stood at SAR 5.5 per share, amounting to SAR 660.0mn.
- Jarir launched two new stores during the quarter, bringing its total store count to 62.

**Valuation:** We revised our target price to a fair value of SAR 175.0 per share and maintain our "Neutral" rating on this stock.

| | 3Q20 | 3Q19 | % YoY | FY20E | FY19 | % YoY |
|---|---|---|---|---|---|---|
| Revenues (SAR mn) | 2,038 | 2,251 | (9.5%) | 9,180 | 8,425 | 9.0% |
| Gross Profit (SAR mn) | 334 | 389 | (14.1%) | 1,304 | 1,273 | 2.4% |
| EBITDA (SAR mn) | 304 | 349 | (12.9%) | 1,165 | 1,167 | (0.2%) |
| Net Profit (SAR mn) | 255 | 305 | (16.3%) | 981 | 985 | (0.3%) |
| EPS basic (SAR) | 2.13 | 2.54 | (16.3%) | 8.18 | 8.21 | (0.3%) |
| Gross Margin (%) | 16.4% | 17.3% | (0.9%) | 14.2% | 15.1% | (0.9%) |
| EBITDA Margin (%) | 14.9% | 15.5% | (0.6%) | 12.7% | 13.8% | (1.2%) |
| Net Profit Margin (%) | 12.5% | 13.5% | (1.0%) | 10.7% | 11.7% | (1.0%) |

Source: Company Financials, FALCOM Research

## 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 ≥ 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 ≥ 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**

## Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.



FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.