FY20 Results Update

March 29, 2021

Recommendation	**Neutral**
Previous Recommendation	Neutral
Current Price (SAR)	173.8
Target Price (SAR)	187.0
Upside/Downside (%)	7.6%

As of March 28, 2021

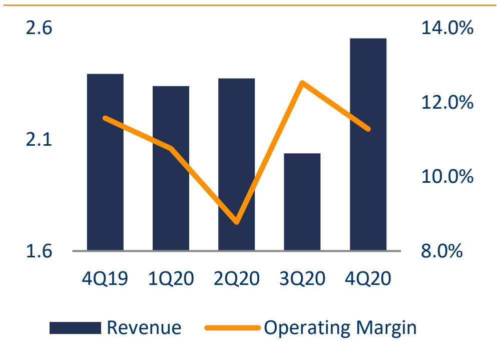
Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	20.9
52-wk High (SAR)	191.8
52-wk Low (SAR)	120.6
Total Outstanding shares (in mn)	120.0
Free Float (%)	89.0%

JARIR vs. TASI (Rebased)

Price Performance (%)	**Absolute**	**Relative**
1m	2.1%	(1.6%)
6m	(6.2%)	(20.5%)
12m	42.9%	(9.8%)

Major Shareholders (%)	
Jarir Investment Trading Company	21.83%

Quarterly Sales (SAR bn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of March 28, 2021

Retail, E-commerce sales drive top line higher in FY20

Jarir's net profit increased 1.9% YoY to SAR 1.0bn in FY20, supported by higher sales in the Retail (up 2.7% YoY to SAR 7.7bn) and E-commerce (up 206.5% YoY to SAR 1.2bn) segments during the year. Gross profit was up 4.4% YoY to SAR 1.3bn, whereas gross margin contracted 83.5 bps YoY to 14.3%. Although operating profit increased 2.8% YoY to SAR 1.1bn on lower selling and marketing expense, operating margin shrank 88.3 bps YoY to 11.8%. Sharp reduction in finance charges pushed net profit up, however, net margin contracted 91.1 bps YoY to 10.8% in FY20.

Jarir's top line rose steadily in FY20, driven by the growth in the Retail and E-commerce segments. Higher sales of smartphones, electronics and accessories (up 7.6% YoY to SAR 4.8bn), and other IT and digital products and services (up 31.2% YoY to SAR 3.4bn) also aided the growth in the top line. The company also added five showrooms during the year (one as replacement) and is expected to continue expanding its Retail segment by launching more stores in the coming years. We believe the company's store expansion plans and increased focus on e-commerce penetration would drive its top line in the long term. The company also managed to pare its debt in FY20, reporting a debt-to-equity ratio of 0.5x vis-à-vis 0.7x in FY19; this bodes well for its expansion plans. However, we anticipate revenue and margins to remain subdued in the near term due to lower demand for school and office supplies and hike in VAT rate. Moreover, additional restrictions, if imposed, amid new variants of the virus may create headwinds for the company. Furthermore, the trend of decline in profit margins remains a concern for the company. In view of the factors mentioned above, we maintain our "Neutral" rating on the stock.

- Revenue soared 10.5% YoY to SAR 9.3bn in FY20 due to higher sales recorded by the Retail and E-commerce segments. Revenue was up 6.7% YoY and 25.3% QoQ to SAR 2.6bn in 4Q20.
- Domestic sales (up 10.8% YoY to SAR 7.7bn) and international sales (up 5.0% YoY to SAR 487mn) accounted for 94.8% and 5.2%, respectively, of total sales in FY20.
- Gross profit (up 4.4% YoY to SAR 1.3bn) grew slower than revenue due to the 11.5% YoY rise in cost of sales to SAR 8.0bn. As a result, gross margin narrowed to 14.3% from 15.1% in FY19.
- Lower selling and marketing expense resulted in a 2.8% YoY increase in operating profit to SAR 1.1bn. However, operating margin contracted to 11.8% from 12.7% in FY19.
- The significant reduction in finance charges offset the sharp rise in zakat expense, resulting in a 1.9% YoY rise in net profit to SAR 1.0bn in FY20. Nevertheless, net margin slipped to 10.8% from 11.7% in FY19.
- Net income scaled up 4.0% YoY and 12.9% QoQ to SAR 288.1mn in 4Q20. However, net margin shrank to 11.3% in 4Q20 from 11.6% in 4Q19 and 12.5% in 3Q20.
- EPS for FY20 stood at SAR 8.36 as against SAR 8.21 in FY19.
- On March 17, Jarir's Board recommended a cash dividend of SAR 2.35 per share for 4Q20, equivalent to SAR 282.0mn or 23.5% of the company's share capital. Total dividend for FY20 thus stood at SAR 7.85 per share, amounting to SAR 942.0mn.
- Jarir launched two new stores during 4Q20, taking the count of new stores launched during the year to five and its total store count to 62 in FY20.

Valuation: We revise our target price upward to a fair value of SAR 187.0 per share and maintain "Neutral" rating on this stock.

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	2,554	2,394	6.7%	9,650	9,306	3.7%
Gross Profit (SAR mn)	363	348	4.3%	1,370	1,329	3.1%
EBITDA (SAR mn)	369	336	9.8%	1,245	1,258	(1.0%)
Net Profit (SAR mn)	288	277	4.0%	1,052	1,003	4.9%
EPS basic (SAR)	2.40	2.31	4.0%	8.77	8.36	4.9%
Gross Margin (%)	14.2%	14.5%	(0.3%)	14.2%	14.3%	(0.1%)
EBITDA Margin (%)	14.4%	14.0%	0.4%	12.9%	13.5%	(0.6%)
Net Profit Margin (%)	11.3%	11.6%	(0.3%)	10.9%	10.8%	0.1%

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.

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