

June 9, 2021

### 1Q21 Results Update

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	211.0
Target Price (SAR)	212.0
Upside/Downside (%)	0.5%

As of June 9, 2021

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	25.3
52-wk High (SAR)	214.8
52-wk Low (SAR)	138.8
Total Outstanding shares (in mn)	120.0
Free Float (%)	100.0%

#### JARIR vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	3.9%	(1.6%)
6m	21.0%	(4.3%)
12m	51.1%	3.3%

#### Major Shareholders (%)

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of June 9, 2021

### Robust growth in E-commerce sales boosts 1Q21 revenues

Jarir Marketing Co. (Jarir)'s top line rose 8.1% YoY to SAR 2.5bn in 1Q21, aided by robust growth in revenue in the E-commerce segment during the quarter. Gross profit increased 3.1% YoY to SAR 337.6mn, whereas gross margin contracted 65.2 bps YoY to 13.3%. Although operating profit rose 4.9% YoY to SAR 285.5mn due to lower general and administrative expenses, operating margin shrank 34.9 bps YoY to 11.3%. Lower finance charges pushed the net profit up 6.3% YoY to SAR 267.6mn in 1Q21; however, net margin contracted 17.8 bps YoY to 10.6% in 1Q21.

Jarir's top line and bottom line rose steadily in 1Q21, driven by growth in the Retail (up 9.9% YoY to SAR 2.3bn) and E-commerce (up 30.4% YoY to SAR 193mn) segments. Higher sales across the smartphones, electronics, and accessories (up 12.7% YoY to SAR 1.4bn), and other IT and digital products and services (up 16.0% YoY to SAR 855mn) product lines also aided growth in the top line. Jarir also managed to increase its market share in the mobile phones and smart devices segment by more than 20.0% YoY; market share in the laptops segment rose 50.0%. The company has launched three showrooms till date in FY21 and is expected to continue expanding its presence in the Retail segment. Meanwhile, the company has also been seeking to boost investments in the E-commerce segment and increase market share in the space. As a result, E-commerce sales accounted for 7.6% of total sales in 1Q21, up from 6.3% in 1Q20. We believe the company's store expansion plans and increased focus on e-commerce penetration would drive its top line in the long term. We anticipate some recovery in demand for Jarir's products in 2H21 due to the expected reopening of schools. However, we expect growth in revenue and bottom line to remain subdued in 2Q21 owing to a high base in 2Q20 due to the pre-VAT buying by consumers. Moreover, prolonged restrictions and slowdown in consumer spending could create headwinds for the company. In view of the factors mentioned above, we maintain our "Neutral" rating on the stock.

- Revenue advanced 8.1% YoY to SAR 2.5bn in 1Q21 due to higher sales in the Retail and E-commerce segments. However, revenue dipped 0.9% QoQ from SAR 2.6bn in 4Q20.
- Domestic sales (up 8.8% YoY to SAR 2.4bn) accounted for 95.2% of total sales in 1Q21, while international sales (down 3.2% YoY to SAR 122mn) represented 4.8% of total 1Q21 sales.
- Gross profit (up 3.1% YoY to SAR 337.6mn) grew slower than revenue due to the 8.9% YoY rise in cost of sales to SAR 2.2bn. As a result, gross margin narrowed to 13.3% from 14.0% in 1Q20.
- Lower general and administrative expense resulted in a 4.9% YoY increase in operating profit to SAR 285.5mn. However, EBIT margin contracted to 11.3% from 11.6% in 1Q20.
- Lower finance cost offset the rise in zakat expense and resulted in a 6.3% YoY rise in the net profit to SAR 267.6mn in 1Q21. Nevertheless, net margin slipped to 10.6% from 10.8% in 1Q20.
- EPS for 1Q21 stood at SAR 2.23 as against SAR 2.1 in 1Q20.
- With the launch of three new stores by Jarir during FY21, the no. of new stores in KSA reached 56 and total count of stores reached 65.
- On May 27, Jarir's Board recommended a cash dividend of SAR 2.1 per share for 1Q21, equivalent to SAR 252.0mn, or 21.0% of the company's share capital.

**Valuation:** We revise our target price upward to a fair value of SAR 212.0 per share and maintain "Neutral" rating on this stock.

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	2,530	2,340	8.1%	10,145	9,306	9.0%
Gross Profit (SAR mn)	338	327	3.1%	1,428	1,329	7.5%
EBITDA (SAR mn)	324	311	4.2%	1,324	1,258	5.2%
Net Profit (SAR mn)	268	252	6.3%	1,111	1,003	10.7%
EPS basic (SAR)	2.23	2.10	6.3%	9.26	8.36	10.7%
Gross Margin (%)	13.3%	14.0%	(0.7%)	14.1%	14.3%	(0.2%)
EBITDA Margin (%)	12.8%	13.3%	(0.5%)	13.0%	13.5%	(0.5%)
Net Profit Margin (%)	10.6%	10.8%	(0.2%)	10.9%	10.8%	0.2%

Source: Company Financials, FALCOM Research

**1Q21 Results Update**  
**FALCOM Rating Methodology**

**June 9, 2021**

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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