

2Q21 Results Update

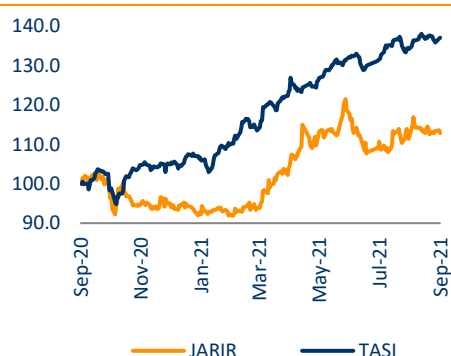
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	209.0
Target Price (SAR)	212.0
Upside/Downside (%)	1.4%

As of September 27, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	25.1
52-wk High (SAR)	225.0
52-wk Low (SAR)	169.6
Total Outstanding shares (in mn)	120.0
Free Float (%)	100.0%

JARIR vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	1.3%	(0.9%)
6m	20.3%	0.4%
12m	12.9%	(24.2%)

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 September 27, 2021

September 28, 2021

Weak performance from E-commerce segment impacted topline in 2Q21

Jarir Marketing Co. (Jarir)'s revenue dropped 15.1% YoY to SAR 2.0bn in 2Q21, following a significant decrease in revenue from online sales during the quarter. Gross profit decreased 13.7% YoY to SAR 262.0mn; however, gross margin inched up 20 bps YoY to 13.0% in 2Q21. Fall in general and administrative expense resulted in a slow drop in operating income to SAR 205.6mn, down 9.5% YoY in 2Q21. Operating margin expanded 64 bps YoY to 10.2%. Consequently, net profit of the company declined 9.2% YoY to SAR 189.2 in 2Q21; however, net margin expanded 61 bps YoY to 9.4% in 2Q21.

Although revenue from the Retail segment slightly increased (up 1.7% YoY to SAR 1.8bn), revenue from the E-commerce segment dropped significantly (down 71.1% YoY to SAR 150mn), resulting in Jarir's top line falling 15.1% YoY to SAR 2.0bn in 2Q21. Fall in the E-commerce segment was ascribed to an exceptional 2Q20 quarter, which witnessed online sales to rise significantly due to lockdown and precautionary measure (especially the computer section due to remote learning and work from home) and was supported by exceptional sales, right before the increase in VAT. Revenue was also impacted more than that in the last quarter due to low sales in the phone and computer sections as well as sales slowdown in 2Q21 during the holy month of Ramadan. The company opened two showrooms in 2Q21 and is expected to continue expanding its presence in the Retail and E-commerce segments, targeting increase in market share in the space. The company's store expansion plans and increased focus on e-commerce penetration would drive its top line in the long term. Going forward, we anticipate strong performance for Jarir in 3Q21, driven by high sales from school and office supplies, as offline education is expected to resume in 3Q21. Moreover, gross margins are expected to improve from those in H121, led by high margins of stationery products. However, emergence of the delta variant could lead to further restrictions and slowdown in consumer spending, which could create headwinds for the company. In view of the factors mentioned above, we maintain our "Neutral" rating on the stock.

- Revenue dropped 15.1% YoY to SAR 2.0bn in 2Q21 following low sales in the E-commerce segment. Revenue fell 20.4% QoQ, ascribed to low sales during the month of Ramadan.
- Domestic sales fell 17.2% YoY to SAR 1.9bn and accounted for 94.4% of the total sales in 2Q21, while international sales rose 46.8% YoY to SAR 113mn and represented 5.6% of the total 2Q21 sales.
- Gross profit decreased 13.7% YoY to SAR 262mn in 2Q21. However, gross margin slightly expanded to 13.0% from 12.8% in 2Q20.
- Operating profit dipped 9.5% YoY to SAR 205.6mn due to fall in general and administrative expense. Consequently, EBIT margin rose to 10.2% from 9.6% in 2Q20.
- The company reported net income of SAR 189.2mn, down 9.2% YoY. However, net margin improved to 9.4% from 8.8% in 2Q20.
- EPS for 2Q21 stood at SAR 1.58 as against SAR 1.74 in 2Q20.
- Jarir launched two new stores during 2Q21, bringing its total tally of showrooms to 66.

Valuation: We retain our target price of SAR 212.0 per share and maintain "Neutral" rating on this stock.

	2Q21	2Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	2,015	2,374	(15.1%)	9,842	9,306	5.8%
Gross Profit (SAR mn)	262	304	(13.7%)	1,378	1,329	3.7%
EBITDA (SAR mn)	248	264	(6.2%)	1,305	1,258	3.8%
Net Profit (SAR mn)	189	208	(9.2%)	1,088	1,003	8.4%
EPS basic (SAR)	1.58	1.74	(9.2%)	9.06	8.36	8.4%
Gross Margin (%)	13.0%	12.8%	0.2%	14.0%	14.3%	(0.3%)
EBITDA Margin (%)	12.3%	11.1%	1.2%	13.3%	13.5%	(0.3%)
Net Profit Margin (%)	9.4%	8.8%	0.6%	11.0%	10.8%	0.3%

Source: Company Financials, FALCOM Research

2Q21 Results Update
FALCOM Rating Methodology

September 28, 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.

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