

2Q22 Results Update

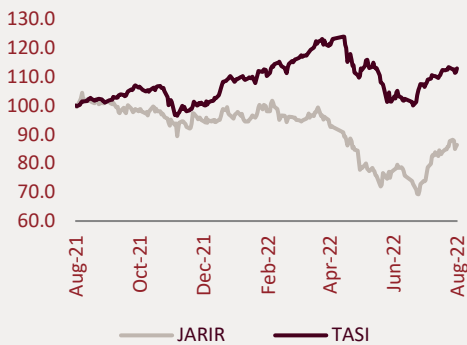
August 26, 2022

Recommendation	Neutral
Previous Recommendation	Overweight
Current Price (SAR)	179.2
Target Price (SAR)	188.0
Upside/Downside (%)	4.9%

As of August 25, 2022

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	21.5
52-wk High (SAR)	216.6
52-wk Low (SAR)	141.6
Total Outstanding shares (in mn)	120.0
Free Float (%)	100.0%

JARIR vs. TASI (Rebased)

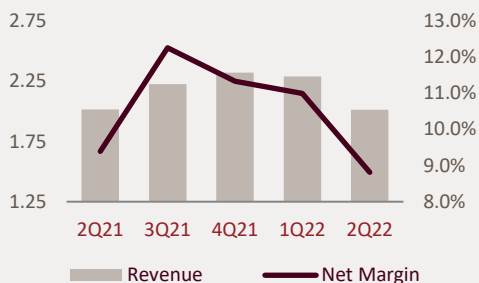


Price Performance (%)	Absolute	Relative
1m	17.1%	11.1%
6m	(11.8%)	(14.2%)
12m	(13.6%)	(26.5%)

Major Shareholders (%)

Jarir Investment Trading Company.	21.83%
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Revenue (SAR bn) and Net Margin (%)



Source: Bloomberg, Company Financials, Yaqeen Capital;
Data as of August 25, 2022

Discount-driven sales hurt margins in 2Q22

Jarir Marketing Co. (Jarir)'s revenue lowered marginally by 0.2% YoY to SAR 2.0bn in 2Q22. Cost of sales went up 0.5% YoY to SAR 1.8bn, leading to a 5.1% YoY drop in gross profit to SAR 248.6mn in 2Q22. Consequently, gross margin contracted 64 bps YoY to 12.4% during the quarter, impacted by discounts given to boost sales, especially smartphones. The rise in other income and decline in general and administrative expenses were offset by higher selling and marketing expenses and led to a 6.7% drop in operating income to SAR 191.8mn in 2Q22. Operating margin narrowed 66 bps YoY to 9.5% in 2Q22. Despite the fall in finances charges and zakat expenses, net profit reduced 6.4% YoY to SAR 177.2mn during the quarter. Subsequently, net margin tightened 58 bps YoY to 8.8% in 2Q22.

Jarir continued to report weak performance in the second quarter of the year, as topline and net income decreased in 2Q22. Higher contribution from the Wholesale (up 60.7% YoY to SAR 45mn) and E-commerce (up 10.0% YoY to SAR 165mn) segments was compensated by lower contribution from the Retail (down 1.8% YoY to SAR 1.8bn) and Others (down 18.5% YoY to SAR 22mn) segments and led to a marginal decline in topline during the quarter. The weak performance during the quarter could be attributed to changes in consumer purchasing habits and ongoing challenges in the consumer electronics market. Jarir's gross margins narrowed during the quarter, affected by discounts given to boost sales. The impact of the higher expenses were largely offset by one-off gain in 2Q22 from the sale of the company's property located at Raka district in Khobar. Jarir is expected to increase its market share in the space by continuing to strengthen its presence in the Retail and E-commerce segments. However, the company faces headwinds due to rising inflation, pricing pressure owing to intense competition, and supply crunch in the electronic segment, which could negatively impact the company. In view of these factors, we revise our rating to "Neutral" on the stock.

- Revenue declined marginally by 0.2% YoY to SAR 2.0bn in 2Q22 owing to a fall in other IT and digital products and services.
- Domestic sales remained flat YoY at SAR 1.9bn and accounted for 94.7% of total sales during the quarter, while international sales decreased 5.3% YoY to SAR 107mn and represented 5.3% of overall revenues in 2Q22.
- Gross profit reduced 5.1% YoY to SAR 248.6mn in 2Q22. Consequently, gross margin narrowed to 12.4% from 13.0% in 2Q21.
- Operating profit dropped 6.7% YoY to SAR 191.8mn, as the rise in selling and administrative expenses offset the fall in general and administrative expenses and an increase in other income. EBIT margin contracted to 9.5% in 2Q22 from 10.2% in 2Q21.
- Net profit decreased 6.4% YoY to SAR 177.2mn in 2Q22. Consequently, net margin tightened to 8.8% from 9.4% in 2Q21.
- EPS for 2Q22 stood at SAR 1.48 as against SAR 1.58 in 2Q21.
- Jarir Marketing Co.'s Board of Directors declared 14.5% cash dividend for 2Q22 at SAR 1.45 per share, amounting to SAR 174mn.

Valuation: We revise our target price to SAR 188.0 per share and revise our rating to "Neutral" on this stock.

	2Q22	2Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	2,010	2,015	(0.2%)	9,087	9,088	(0.0%)
Gross Profit (SAR mn)	249	262	(5.1%)	1,243	1,229	1.1%
EBITDA (SAR mn)	231	248	(6.6%)	1,216	1,217	(0.0%)
Net Profit (SAR mn)	177	189	(6.4%)	984	992	(0.8%)
EPS Basic (SAR)	1.48	1.58	(6.4%)	8.20	8.27	(0.8%)
Gross Margin (%)	12.4%	13.0%	(0.6%)	13.7%	13.5%	0.1%
EBITDA Margin (%)	11.5%	12.3%	(0.8%)	13.4%	13.4%	(0.0%)
Net Profit Margin (%)	8.8%	9.4%	(0.6%)	10.8%	10.9%	(0.1%)

Source: Company Financials, Yaqeen Capital

Yaqeen Capital Rating Methodology

Yaqeen Capital 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 Yaqeen Capital.

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