

**3Q 2018 Results Update**
**November 15, 2018**

<b>Recommendation</b>	<b>Neutral</b>
Previous Recommendation	Neutral
Current Price (SAR)	141.6
Target Price (SAR)	140.6
Upside/Downside (%)	(0.7%)

*As of November 14<sup>th</sup> 2018*
**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	17.0
52 Wk High (SAR)	150.0
52 Wk Low (SAR)	105.3
Total Outstanding shares (in mn)	120.0
Free Float (%)	75.0%

**JARIR vs. TASI (Rebased)**


Price Performance (%)	Absolute	Relative
1m	8.0%	2.6%
6m	12.0%	17.1%
12m	43.9%	34.2%

**Major Shareholders (%)**

Jarir Investment Trading Company	21.0%
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**Quarterly Sales (SAR bn) and Operating Margin**

*Source: Bloomberg, Company Financials, FALCOM*
**Jarir's 3Q18 bottom line boosted by robust sales and margin improvement**

Jarir Marketing Co. (Jarir's 3Q18 net profit increased 16.8% YoY to SAR 288mn, driven by higher sales and margin improvement. Jarir witnessed relative improvement in the profit margins of some segments as the product management system continues to improve. Sales growth was largely driven by the electronics segment, ascribed to smartphone sales. Additionally, an increase in the number of showrooms to 53 in 3Q18 from 49 in 3Q17 partly contributed to higher retail sales. On a sequential basis, net profit rose 77.1% QoQ on higher sales in most of the segments, supported by the back-to-school season. Moreover, improved profit margins as a result of a change in the sales mix and decline in selling and marketing expenses drove profit in the current quarter.

A third new store opening in 3Q18 this year was in line with the company's plan to add five to six stores in 2018. However, with just one quarter left until year-end, Jarir is unlikely to achieve the full-year target of five to six in 2018. However, we believe Jarir would gradually grow this figure, allowing it to capture higher market share amid a shift in the market toward organized players.

- Jarir's top line grew 17.0% YoY and 14.1% QoQ to SAR 1,932mn in 3Q18, led by higher sales in most of the segments particularly electronics section, which was largely driven by smartphones sales. Additionally, a rise in the number of showrooms to 53 from 49 contributed to YoY increase in retail sales.
- Gross profit rose 16.5% YoY to SAR 339mn; however, an increase in cost of sales (+17.1% YoY) led to 7.8bps YoY decline in the gross profit margin. On a sequential basis, gross profit increased 59.3%, with the gross margin advancing 497bps QoQ, primarily ascribed to a change in the sales mix.
- Operating profit increased 17.6% YoY to SAR 285mn in spite of an SAR 5mn rise in operating expenses this quarter, against that in 3Q17. This was in line with growth in gross profit (+16.5% Y/Y, +59.3% QoQ). Operating profit jumped 82.2% QoQ, largely attributed to higher sales and margin improvement.
- Net profit stood at SAR 288mn (+16.8% Y/Y, +77.1% QoQ) in 3Q18, supported by higher sales, margin improvement, and lower selling & marketing expenses on a YoY basis. Consequently, net margin expanded 530bps QoQ to 14.9% in 3Q18, declining only marginally by 1.9bps YoY.
- Jarir's cash flow from operating activities grew 180% YoY in 3Q18, primarily led by decline in inventories and prepayments. On a quarterly basis, cash flow increased 327% QoQ to SAR 414mn (2Q18: SAR 97mn), largely boosted by the decline in inventories.
- The company's impressive performance in 3Q18 was ascribed to the successful implementation of its strategy to adjust the product mix in line with changing consumer behavior. We expect smartphone sales and the launch of new phone models to support revenue growth in coming quarters as well. Furthermore, consolidation in the industry would help large retailers such as Jarir to command better supplier terms than peers. However, as mentioned earlier, the entry of Souq.com and Noon.com in the market is likely to accelerate e-commerce growth in the region, which continues to pose a headwind to Jarir's top line.

**Valuation:** We have revised our target price to SAR 140.6 per share, after incorporating a strong 3Q18 performance and accounting for an increase in share capital. Thus far, 2018 has proved impressive for Jarir, and we expect the trend to continue in future quarters. However, increasing competition from e-commerce players may weigh on margin expansion in coming years. Hence, we maintain our "Neutral" rating on the stock.

	3Q'18	3Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR bn)	1.9	1.7	17.0%	7.3	6.9	4.7%
Gross Profit (SAR bn)	0.3	0.3	16.5%	1.1	1.0	3.3%
EBITDA (SAR bn)	0.3	0.3	17.8%	1.0	0.9	8.3%
Net Profit (SAR bn)	0.3	0.2	16.8%	0.9	0.9	8.8%
EPS basic (SAR)	2.4	2.1	16.8%	10.5	9.6	8.8%
Gross Margin (%)	17.5%	17.6%	-0.1%	14.7%	14.9%	-0.2%
EBITDA Margin (%)	15.5%	15.4%	0.1%	13.2%	12.7%	0.4%
Net Profit Margin (%)	14.9%	14.9%	0.0%	13.0%	12.5%	0.5%

*Source: Company Financials, FALCOM Research*

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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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