

### 2Q19 Results Update

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	169.0
Target Price (SAR)	170.0
Upside/Downside (%)	0.6%

As of August 18<sup>th</sup> 2019

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	20.3
52-Wk High (SAR)	179.6
52-Wk Low (SAR)	129.5
Total Outstanding shares (in mn)	120.0
Free Float (%)	75.8%

#### JARIR vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(1.2%)	2.0%
6m	13.7%	14.5%
12m	28.2%	24.1%

#### Major Shareholders (%)

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 18<sup>th</sup> August 2019

August 18, 2019

#### Higher promotional expenses dent Jarir's 2Q19 net profit growth

Jarir Marketing Co. (Jarir)'s 2Q19 net profit rose 4.0% YoY to SAR 169mn, missing the consensus estimate. The net profit growth was slower than the revenue rise as a result of higher promotional expenses, financial charges, and operating costs from the addition of new showrooms. Revenues increased 11.8% YoY to SAR 1,893, largely supported by the good performance of the computer and electronics segments, which was in turn driven by the increased number of showrooms. On YoY basis, profit margins were adversely impacted by the change in the sales mix, which involved higher sales of low-margin products and a decrease in wholesale goods due to the back to school season.

Since the beginning of 2019, Jarir has added five new showrooms, taking its total number of showrooms to 59, with 49 present in Saudi Arabia. The company benefitted from the additional showrooms, which reflected in higher revenues for the quarter, even though the promotional price offers and the change in the sales mix contained the increase in profit margins. Therefore, while new store rollouts facilitate higher market share for the company, the heightening competition from e-commerce players is likely to keep the revenue rise in check. Thus, even though the company offers an attractive dividend yield with a low leverage, given the limited upside potential, we maintain our "Neutral" rating on the stock.

- Revenues increased 11.8% YoY and 0.3% QoQ to SAR 1,893mn in 2Q19 due to the improved performance of the electronics and computer segments. The electronics segment profited from higher smartphone sales, whereas the higher number of showrooms further contributed to the rise.
- Gross profit surged 10.1% YoY to SAR 234mn in 2Q19 as the rise in cost of sales for the same period at 12.0% YoY outpaced revenue growth. On QoQ basis, gross profit declined 22.6% as the marginal rise in revenue was offset by the increase in cost of sales. The gross margin for the quarter stood at 12.4% compared to 16.0% in 1Q19 and 12.6% in 2Q18.
- Operating profit was up 14.1% YoY to SAR 178mn. General and administrative expenses rose 13.2% YoY to SAR 28mn on additional expenses due to the new showrooms. The operating profit declined 28.1% QoQ on account of the change in the sales mix, which involved relative sales growth in low-margin products compared to the previous quarter. Thus, the operating margin for the quarter was 9.4% as against 13.2% and 9.2% in 1Q19 and 2Q18, respectively.
- Net profit advanced 4.0% YoY to SAR 169mn, as higher financial charges for the comparable period and the factors mentioned above led to a relative decline in profit margins. The net margin contracted to 8.9% in 2Q19 from 12.4% in 1Q19 and 9.6% in 2Q18.
- For 2Q19, Jarir's board of directors proposed a 14% dividend payment at SAR 1.40 per share for its 120 million shareholders, amounting to SAR 168mn.
- In June, the company signed a lease agreement with Sehat Al-Sharq Medical Co. Ltd at a total value of SAR 8 mn per annum. Under the 20-year agreement, Sehat Al-Sharq would lease Jarir's residential building in Al Khobar, which comprises eight stories and 112 units.
- The company added two more showrooms in 2Q19, taking the total tally of showrooms to 59.

**Valuation:** We maintain our target price at a fair value of SAR170.0 per share and maintain our "Neutral" rating on the stock.

	2Q19	2Q18	% YoY	FY19E	FY18	% YoY
Revenues (SAR bn)	1.9	1.7	11.8%	8.1	7.4	10.0%
Gross Profit (SAR bn)	0.2	0.2	10.1%	1.3	1.1	14.1%
EBITDA (SAR bn)	0.2	0.2	25.9%	1.1	1.0	15.0%
Net Profit (SAR bn)	0.2	0.2	4.0%	1.1	1.0	11.7%
EPS Basic (SAR)	1.4	1.4	4.0%	8.9	8.0	11.7%
Gross Margin (%)	12.4%	12.6%	(0.2%)	15.7%	15.1%	0.6%
EBITDA Margin (%)	11.4%	10.1%	1.3%	13.8%	13.2%	0.6%
Net Profit Margin (%)	8.9%	9.6%	(0.7%)	13.2%	13.0%	0.2%

Source: Company Financials, FALCOM Research

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**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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