

**FY19 Results Update**
**Recommendation Overweight**

Previous Recommendation	Neutral
Current Price (SAR)	120.8
Target Price (SAR)	162.0
Upside/Downside (%)	34.1%

*As of March 24<sup>th</sup> 2020*
**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	14.5
52-Wk High (SAR)	179.6
52-Wk Low (SAR)	110.0
Total Outstanding shares (in mn)	120.0
Free Float (%)	89.0%

**JARIR vs. TASI (Rebased)**


Price Performance (%)	Absolute	Relative
1m	(29.4%)	(4.4%)
6m	(30.2%)	(5.5%)
12m	(27.6%)	3.6%

**Major Shareholders (%)**

Jarir Investment Trading Company	21.8%
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**Quarterly Sales (SAR bn) and Operating Margin**


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 24<sup>th</sup> March 2020

**Change in sales mix pares gains in the bottom line; net income rises 2.6% YoY**

Improved performance from the retail segment, largely supported by the upbeat performance of the computer and electronics segments, helped lift Jarir Marketing Co. (Jarir)'s revenues by 14.4% YoY to SAR 8.4bn. The rise in net profit was, however, curtailed by the change in the sales mix toward lower margin products and the increase in sales and marketing expense to promote the ecommerce platform.

In view of the current COVID-19 situation, the company has announced temporary closure of its stores in the Kingdom until the situation is brought under control. We believe this will have a marked impact on the company's performance in the upcoming quarter. To counter this, the company continues to focus on the growth of its ecommerce platform and minimize the impact of the store closures. Besides, the company's margins continue to face pressure as the sales mix shifts toward electronics and smartphones that command lower margins compared to other products. Moreover, the company's sales and marketing expense keeps rising as it continues to support the growth of its ecommerce platform. We expect a moderate revenue growth in the next year and profit margins to be subdued. In wake of the uncertain situation globally, the stock price has seen sharp a drop over the last few weeks. We believe the current valuation offers scope for upside potential and therefore change our rating to "Overweight" on the stock.

- Revenue advanced 14.4% YoY to SAR 8.4bn, aided by the strong performance of the electronics and computer segments. Revenues from the retail segment was higher over the comparable period last year owing to the rise in the number of showrooms. The other segments also witnessed a rise in revenues, whereas revenues from the wholesale segment fell.
- Gross profit expanded 14.3% YoY to SAR 1.3bn in FY19. The gross margin for the year stood at 15.1% in FY19, marginally below FY18 due to the change in the sales mix and adoption of IFRS 16 in January 2019.
- Operating profit was up 11.8% YoY to SAR 1.0bn. The operating margin for the year, however, dipped to 12.1% against 12.4% in FY18 due to a rise in general, administrative, selling, and marketing expense in order to support the growth of the ecommerce platform.
- Net profit grew 2.6% YoY to SAR 984.7mn, lower than the rate of revenue growth as the product mix changed during the year to lower margin products. The year also saw higher financial charges in the wake of the IFRS 16 adoption, which led to a fall in the net margin to 11.7% for the year vis-à-vis 13.0% in FY18.
- The company adopted IFRS 16, with effect January 1, 2019. The application resulted in a significant impact on the classification of leases of Jarir and its subsidiaries in the statement of income, which led to the replacement of rent expense with depreciation of right of use and finance cost.
- Jarir added net four new stores during the year, bringing its total tally of showrooms to 59.

**Valuation:** We revise our target price at a fair value of SAR 162.0 per share and change our rating to "Overweight".

	4Q19	4Q18	% YoY	FY20E	FY19	% YoY
Revenues (SAR bn)	2.4	2.1	12.0%	8.6	8.4	2.7%
Gross Profit (SAR bn)	0.3	0.3	8.7%	1.3	1.3	1.3%
EBITDA (SAR bn)	0.3	0.3	15.7%	1.1	1.2	(8.4%)
Net Profit (SAR bn)	0.3	0.3	(4.6%)	1.0	1.0	2.3%
EPS Basic (SAR)	2.3	2.4	(4.6%)	8.4	8.2	2.3%
Gross Margin (%)	14.5%	15.0%	(0.4%)	14.9%	15.1%	(0.2%)
EBITDA Margin (%)	13.3%	12.9%	0.4%	12.4%	13.8%	(1.5%)
Net Profit Margin (%)	11.6%	13.6%	(2.0%)	11.6%	11.7%	(0.0%)

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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