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Jarir Marketing Co.





Jarir Marketing Co. was established in 1974 in Riyadh, as a general partnership and later turned into a Saudi Joint-stock company. The company operates through 67 showrooms spread across various locations in Kingdom of Saudi Arabia as well as Qatar, UAE, Kuwait, and Libya. The company operates in three segments namely Retail (Jarir Bookstore), Wholesale and E-commerce. It is considered one of the market leaders in the Middle East for consumer IT products, Electronics, Office supplies and Books. The company's product offerings include Office and School Supplies, Children's Toys and Educational Aids, Arabic and English Books and Publications, Arts and Crafts Materials, Computer Peripherals and Software, Mobile Phones and Accessories, Audio Visual Instruments, Photography Tools, Smart Television and Maintenance of Computers and Electronic items.

Market Capitalization of the company is SAR 18.38 billion, with 120 million outstanding shares (as of 12th June'22). The Retail Segment contributes 88% to the revenue of the company with the sales from 67 different showrooms. Wholesale Segment contributes 2% to the revenue mainly through sales of stationery and technical products to new schools. E-commerce segment contributes 8.3% of the revenue of Jarir Marketing with three different divisions namely B2C e-commerce, B2B e-commerce and E-books.

Capital and Shareholders' Profile

Shareholders	% Holding
Jarir Investment	21.8%
Individuals with 50k or more	12.7%
Al Agil Brothers	14%
Institutional Investors	42.1%
Other Individuals	9.3%

Why We like It

Strong Fundamentals

Jarir's net profit margin is 10.9%, which is higher than the industry average of 9.2% in 2021. The Return-on-Equity (ROE) of the company is 56.8% while for industry it is 41.04% in 2021. The asset turnover ratio for the company is 0.58 which is higher than the industrial average of 0.37 in 2021. The Debt-to-Equity ratio (D/E) of the company is 36.29% well below the industrial average of 140.26% in 2021. The EPS for the company is SAR 8.27 while for the industry is SAR 6.04 in 2021. The cash conversion cycle of the company is 62 days which is close to the industrial average of 66 days in 2021. The P/E multiple of company is 23.2x which is close to the industrial average of 24.39x in 2021. The free cash flow has also increased in 2021 to SAR 1,358 million from SAR 1,317 million in 2020, an increase of 3.1%.

Normalization of Business post pandemic

The retail business is the key segment of the company contributing highest share in the revenue. The normalization of the business post COVID-19 pandemic will help in recovery of the company's retail business. The reopening of schools and offices will drastically increase the demands for stationery and other items. The recovery of the retail sector will also help in harnessing the growth the company opening new showrooms every year.

Growing Online Presence

Due to lockdown restrictions because of Covid-19, there is an upsurge in the people willing to shop online. The company has witnessed a 10% growth in number of customers in B2C e-commerce in 2021. There was a 107% growth in sales through the website. In B2B segment the number of customers increased by 21% and in E-Book segment the number of customers increased by 19%. The company aims to continue the improvement in its website and mobile application to enhance the customer experience, it also aims to start international shipping during 2022.

Attractive Dividend Yields

Jarir is one of the highest dividends paying companies in Saudi Arabia. The company has maintained a steady dividend payout throughout the years, having distributed SAR 7.5/share in 2021. The firm had paid out dividend of SAR 234 million for the Q4 in 2021, or SAR 1.95/share. The company has maintained a dividend distribution ratio of more than 80% of the net profit in last five years. The average dividend yield of the company over last 5 years is 5.02% more than the industrial average of 4.15%. According to Jarir's dividend policy, the distribution ratio will be around 80% - 100% of the net profit, unless this contradicts the financial, operational and investment needs.

Key risks one should be mindful of

Long term risk

While most of the sectors are now normalizing after the severe blow from covid-19 pandemic, some of its impact could be eradicated in long run only, while some have inspired permanent change. The retail sector is migrating from traditional brick and mortar to e-commerce platform. While Jarir has become a major player in e-commerce market in KSA (3rd in terms of net sales behind Namshi and Amazon), the company will face a major threat with Amazon launching its prime membership, which will give benefits like same day delivery and free shipping to its customers. Amazon has far superior resources, technology, and logistics network; and the e-commerce giant will pose the biggest threat to the



local players in the e-commerce market. Amazon's global supply chain will enable it to compete in market as a price differentiator inducing more pressure on the company's top line.

Short term risk

The revenue of the company decreased by 2.3% in 2021 (YoY) mainly due to decline in sales of computer and electronic accessories, since most of the computer industry is suffering from lack of supply due to shortage of semiconductors. The supply of semiconductors in the coming years is still uncertain, and a shortage will put additional pressure on the company's top line. The gross profit saw a major dip of 7.5% depicting increasing cost of goods sold and operational inefficiency. The net profit saw a decrease of 1.1% and most of the profit was driven by sale of capital assets (land plot).

Possible Future Scenarios

The growing tech-savvy population is changing the landscape of the retail sector, with more and more of people preferring to shop online rather than through the physical market. The penetration of e-commerce in KSA will provide the local players to extend their reach, while the willingness to accept the cross-border products will add new dimensions to the e-commerce market. Jarir Marketing is expected to improve its capabilities to harness the growth potential via e-commerce. The company is well positioned to compete in the market and is expected to improve its logistic networks via collaboration with logistic solutions and match the competitor's capabilities. The company is also planning to start international shipment by 2022, which will further extend its reach.

The retail sector is recovering from the effects of the Covid-19 pandemic and Saudi Arabia's retail sector is expected to grow at a CAGR of 6%. ¹The company is planning to extend its retail segment by reaching 80 showrooms by 2025 from 67 currently. The high per capita income of the population, increasing credit card penetration with implementation of new payment systems like Point-of-Sales will further provide a better ecosystem for both retail and e-commerce segments. The strong growth potential of the company backed by its strong fundamentals can attract large investment that can enable it to invest in e-commerce segment as well as continue opening new showrooms nationally as well as internationally.

¹ techsciresearch

Key Financial & Ratios

Income Statement (SAR million)	2015	2016	2017	2018	2019	2020	2021
Revenue	6,376	6,123	6,942	7,362	8,425	9,306	9,088
Gross Profit	972	876	1,037	1,114	1,273	1,329	1,229
Operating Income	809	710	835	978	1,071	1,101	1,062
Net Income	829	734	868	960	985	1,003	992
Basic EPS Excluding Extraordinary Items	6.90	6.12	7.23	8.00	8.21	8.37	8.27
DPS - Common Stock Primary Issue	5.79	5.47	6.53	7.85	8.00	7.85	7.50

Balance Sheet (SAR million)	2015	2016	2017	2018	2019	2020	2021
Cash and Short-Term Investments	110	158	200	146	29	97	432
Total Receivables, Net	153	101	147	181	180	143	153
Total Current Assets	1,219	1,340	1,498	1,758	1,789	1,840	2,068
Property/Plant/ Equipment, Total - Gross	1,131	1,009	1,076	1,115	1,102	1,125	1,083
Total Assets	2,411	2,634	2,877	3,215	4,002	3,999	4,112
Total Current Liabilities	776	976	1,103	1,364	1,551	1,515	1,633
Total Debt	12	12	11	10	647	581	520
Total Liabilities	907	1,130	1,251	1,516	2,356	2,274	2,343
Total Equity	1,504	1,504	1,626	1,699	1,645	1,725	1,769
Total Liabilities & Shareholders' Equity	2,411	2,634	2,877	3,215	4,002	3,999	4,112

Cash flow Statement (SAR million)	2015	2016	2017	2018	2019	2020	2021
Net Income/Starting Line	829	734	868	960	985	1,003	992
Depreciation/Depletion	33	43	49	57	145	157	155
Changes in Working Capital	6	(78)	31	(2)	(156)	87	110
Cash from Operating Activities	910	938	928	696	973	1,397	1,428
Capital Expenditures	(143)	(141)	(117)	(125)	(84)	(80)	(70)
Cash from Investing Activities	(144)	(217)	(138)	(135)	(105)	(94)	24
Cash from Financing Activities	(785)	(665)	(748)	(616)	(984)	(1,235)	(1,116)
Free Cash Flow	767	797	811	571	889	1,317	1,358

Key Ratios	2015	2016	2017	2018	2019	2020	2021
Gross Margin	16.0%	13.7%	15.3%	15.0%	14.5%	14.2%	12.3%
EBITDA Margin	13.5%	12.2%	12.9%	14.6%	14.0%	14.4%	13.7%
Net Margin	13.7%	12.0%	12.6%	13.6%	11.6%	11.3%	11.3%
Asset Turnover	0.65	0.69	0.71	0.7	0.62	0.65	0.57
Pretax ROA	9.0%	8.4%	8.9%	9.7%	7.3%	8.1%	6.6%
x Leverage (Assets/ Equity)	1.6	1.75	1.77	1.89	2.43	2.32	2.32
ROE	13.9%	14.1%	15.6%	17.1%	16.7%	16.9%	14.9%
Quick Ratio	0.55	0.47	0.5	0.51	0.34	0.35	0.51
Current Ratio	1.57	1.37	1.36	1.29	1.15	1.21	1.27
Cash Cycle (Days)	63.4	53.3	59	55.3	57.5	55.4	54.8
Assets/Equity	1.6	1.75	1.77	1.89	2.43	2.32	2.32
Debt/Equity	0.03	0.01	0.06	0.17	0.67	0.46	0.36
% LT Debt to Total Capital	0.8%	0.8%	0.6%	0.5%	23.6%	23.0%	21.6%
ROIC	12.8%	12.8%	14.3%	15.7%	11.2%	11.6%	10.5%

Source: Refinitiv

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