



**US\$1.837bn** Market cap      **87%** Free float      **US\$2.284mn** Avg. daily volume

Target price **190.6** 10.65% over current  
 Consensus price **185.0** 7.4% over current  
 Current price **172.3** as at 25/7/2011

Research Department  
**Khalid Alruwaigh, Acting Head of Equity Research**  
 Tel 966 1 211 9310, alruwaighka@alrajhi-capital.com

Underweight      **Neutral**      Overweight

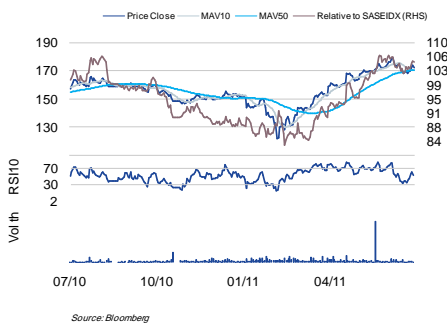
**Key themes**

Driven by rising population, improving education, and changing lifestyle, we expect the retail sector in Saudi Arabia to continue growing. Jarir has a very strong position in books, office & school supplies, and electronics markets. Jarir should continue to grow by opening new stores and benefiting from new electronics segment growth.

**Implications**

Jarir is one of our preferred stocks in the retail sector. It has a unique business model with strong position in electronics and school supplies markets. However, its share price has performed well and, in our view, is not cheap anymore.

**Performance**

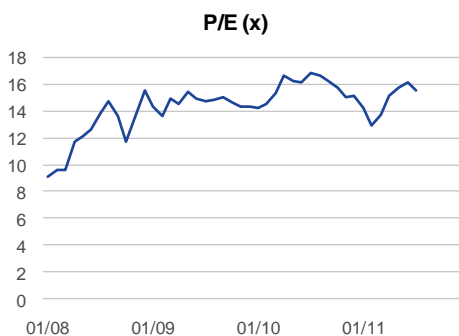


**Earnings**

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	3,015	3,867	4,482	5,140
Revenue Growth	18.0%	28.3%	15.9%	14.7%
EBITDA (mn)	415	494	551	617
EBITDA Growth	3.0%	19.1%	11.4%	12.1%
EPS	10.02	11.91	13.05	14.54
EPS Growth	7.2%	18.8%	9.6%	11.4%

Source: Company data, Al Rajhi Capital

**Valuation**



Source: Company data, Al Rajhi Capital

# Jarir

## Impressive results but limited upside

*This report follows our Flash View of 9th July. Driven by robust smart phones and tablets sales, Jarir's Q2 results showed outstanding y-o-y growth in both top and bottom lines of 44% and 30% respectively; above our expectations of 16% and 19%. By our estimates, like-for-like sales growth has been extremely strong, above 36%. We believe that the two salary bonus played a vital role in driving sales growth. Gross margin has noticeably declined as a result of exceptional growth in iPhone and iPad sales (which carry lower margin). On the back of Q2 results, we have revised our forecasts and hence set a new target price of SAR190.6. However, as the share price has recently rallied more than 15% and currently offers limited upside, we downgrade our rating to Neutral.*

**iPhone and iPad sales drove growth:** Year-on-year sales growth of 44% in Q2 was well above our estimate of 16%. We believe that all segments' sales grew, but we attribute this outstanding growth to the faster than expect growth in smart phones and tablet sales. iPhone sales grew y-o-y by around 150% while tablets (iPad) sales increased by about 50%. Driven by strong like-for-like sales growth and the opening of two new stores, we expect sales growth of 28% in Q3.

**Organic growth (SSS) remains the chief driver:** Jarir opened one store in the first half of 2011 and two stores during 2010. On this basis, we believe that SSS growth accelerated to an exceptional level above 36% during Q3. The expected launch of the new iPhone later this year is likely to uphold smart phone sales during Q4 and H1 2012. Driven by smart phones and tablets sales, coupled with underpenetrated internet market in the kingdom, we believe that Jarir has at least 12-18 months of double-digit SSS growth.

**Two more stores to open in 2011:** Jarir announced on June 29<sup>th</sup> the opening of new store in Hofuf city. According to the company, two new stores will be opened in Makkah and Yanbu during the second half of 2011. We estimate the cost of launching these stores to be around SAR50mn. The company has postponed the opening of Kuwait store to next year due to construction delays.

**Robust smart phones sales depressed margins:** Although Jarir is now making reasonably better margins on iPhones than before as they get them from telecom companies (STC & Mobily), they still carry weak margin compared to other segments. This has noticeably hit the company's gross margin which contracted by 150 bps y-o-y. That said, we still believe that the major adverse impact on margins from the company's electronics operations has already been felt in 2010, but the exceptional growth in these products sales hurt margins during Q2. We expect pressure on margin to continue but to be less adverse than that seen in Q2 considering strong school supplies sales in Q3.

**Conclusion:** Jarir is a well-respected company with strong positions in the electronics, office and school supplies, and books markets. We have raised our target price by 3%, from SAR185.4 to SAR190.6, as a result of increasing our earnings forecasts marginally. As the share price has recently rallied more than 15%, our new target price implies 10% upside potential only. Therefore, we downgrade our rating to Neutral. Jarir trades on a PE ratio of 14.6x and an EV/EBITDA multiple of 13.9x. It is worth noting that we expect Jarir to increase its dividends to SAR9.2 per share, implying an attractive dividend yield of 5.3%.

### Corporate summary

Jarir Marketing Company is one of the leading retail companies in the GCC with a market value of US\$1.6bn. The company retails and wholesales books, school supplies, office supplies, laptops, software, and other electronic products. The retail sector of the company contributes to approximately 90% of the revenues. The company owns 29 branches, 25 are in Saudi while the remaining four are elsewhere in the GCC region.

### Share information

Market cap (SAR/US\$) 6.89bn / 1.837bn  
52-week range 122.0 - 179.0  
Daily avg volume (US\$) 2.284mn  
Shares outstanding 40.00mn  
Free float (est) 87%

Performance: 1M 3M 12M  
Absolute -0.4% 8.3% 9.7%  
Relative to index -0.6% 11.5% 4.9%

Major Shareholder:  
Jarir Investment company 12%  
Mohammed Abdulrahman Alaqeel 9%

Source: Bloomberg, Al Rajhi Capital

### Valuation

Period End	12/10A	12/11E	12/12E	12/13E
Revenue (SARmn)	3,015	3,867	4,482	5,140
EBITDA (SARmn)	415	494	551	617
Net Profit (SARmn)	401	476	522	582
EPS (SAR)	10.02	11.91	13.05	14.54
DPS (SAR)	7.85	9.20	9.20	10.18
EPS Growth	7.2%	18.8%	9.6%	11.4%
EV/EBITDA (x)	16.2	13.9	12.4	11.2
P/E (x)	17.2	14.5	13.2	11.8
P/B (x)	8.6	7.5	6.4	5.5
Dividend Yield	4.6%	5.3%	5.3%	5.9%

Source: Company data, Al Rajhi Capital

**Figure 1. Jarir: 2010Q2A vs. 2011Q2E vs. 2011Q2A & 2010Q3A vs. 2011Q3E**

(SAR) mn	2010Q2A	2011Q2E	2011Q2A	YOY % chg.	2010Q3A	2011Q3E	YOY % chg.
<b>Total Revenues</b>	<b>672</b>	<b>779.4</b>	<b>968</b>	<b>44.1%</b>	<b>735</b>	<b>939</b>	<b>27.6%</b>
Gross Profit	99	116.1	128	29.3%	127	150	18.4%
	14.7%	14.9%	13.2%		17.2%	16.0%	
<b>Operating Profit</b>	<b>74.7</b>	<b>87.3</b>	<b>97.2</b>	<b>30.1%</b>	<b>102.6</b>	<b>119.2</b>	<b>16.2%</b>
<b>Net Income</b>	<b>75.8</b>	<b>90.1</b>	<b>98.5</b>	<b>30.0%</b>	<b>102.9</b>	<b>120.0</b>	<b>16.7%</b>

Source: Company data, Al Rajhi Capital



We expect revenues to reach SAR3.8bn by the end of this year

Income Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
<b>Revenue</b>	<b>2,555</b>	<b>3,015</b>	<b>3,867</b>	<b>4,482</b>	<b>5,140</b>
Cost of Goods Sold	(2,069)	(2,513)	(3,268)	(3,800)	(4,369)
<b>Gross Profit</b>	<b>486</b>	<b>502</b>	<b>599</b>	<b>682</b>	<b>771</b>
Government Charges					
S.G. & A. Costs	(102)	(106)	(128)	(162)	(190)
<b>Operating EBIT</b>	<b>384</b>	<b>396</b>	<b>471</b>	<b>520</b>	<b>581</b>
Cash Operating Costs	(2,152)	(2,599)	(3,373)	(3,931)	(4,522)
EBITDA	403	415	494	551	617
Depreciation and Amortisation	(19)	(19)	(24)	(31)	(37)
<b>Operating Profit</b>	<b>384</b>	<b>396</b>	<b>471</b>	<b>520</b>	<b>581</b>
Net financing income/(costs)	(13)	(11)	(11)	(15)	(14)
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	14	29	30	30	30
Other Expenses					
<b>Net Profit Before Taxes</b>	<b>385</b>	<b>413</b>	<b>490</b>	<b>535</b>	<b>597</b>
Taxes	(11)	(12)	(14)	(13)	(15)
Minority Interests	-	-	-	-	-
<b>Net profit available to shareholders</b>	<b>374</b>	<b>401</b>	<b>476</b>	<b>522</b>	<b>582</b>
Dividends	(295)	(314)	(368)	(368)	(407)
Transfer to Capital Reserve					

	12/09A	12/10A	12/11E	12/12E	12/13E
Adjusted Shares Out (mn)	40.00	40.00	40.00	40.00	40.00
CFPS (SAR)	9.82	10.51	12.50	13.81	15.46
EPS (SAR)	9.35	10.02	11.91	13.05	14.54
DPS (SAR)	7.37	7.85	9.20	9.20	10.18

We expect revenues growth above 14% over the next three years

Growth	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue Growth	1.4%	18.0%	28.3%	15.9%	14.7%
Gross Profit Growth	11.7%	3.1%	19.4%	13.9%	13.1%
EBITDA Growth	10.7%	3.0%	19.1%	11.4%	12.1%
Operating Profit Growth	9.9%	2.9%	18.9%	10.5%	11.7%
Net Profit Growth	12.4%	7.2%	18.8%	9.6%	11.4%
EPS Growth	12.4%	7.2%	18.8%	9.6%	11.4%

We expect gross margin to decline but to remain above 15%

Margins	12/09A	12/10A	12/11E	12/12E	12/13E
Gross profit margin	19.0%	16.6%	15.5%	15.2%	15.0%
EBITDA margin	15.8%	13.8%	12.8%	12.3%	12.0%
Operating Margin	15.0%	13.1%	12.2%	11.6%	11.3%
Pretax profit margin	15.1%	13.7%	12.7%	11.9%	11.6%
Net profit margin	14.6%	13.3%	12.3%	11.6%	11.3%

Jarir is close to fair value at P/E of 14.5x and EV/EBITDA of 13.9x

Other Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
ROCE	45.7%	44.1%	43.1%	41.7%	40.6%
ROIC	45.7%	48.9%	53.2%	47.8%	48.4%
ROE	53.1%	52.7%	55.5%	52.5%	50.0%
Effective Tax Rate	2.8%	3.0%	2.8%	2.5%	2.5%
Capex/Sales	1.2%	1.3%	2.2%	3.4%	3.5%
Dividend Payout Ratio	78.8%	78.3%	77.3%	70.5%	70.0%

Valuation Measures	12/09A	12/10A	12/11E	12/12E	12/13E
P/E (x)	18.4	17.2	14.5	13.2	11.8
P/CF (x)	17.5	16.4	13.8	12.5	11.1
P/B (x)	9.5	8.6	7.5	6.4	5.5
EV/Sales (x)	2.6	2.2	1.8	1.5	1.3
EV/EBITDA (x)	16.7	16.2	13.9	12.4	11.2
EV/EBIT (x)	17.5	17.0	14.6	13.2	11.9
EV/IC (x)	8.6	7.8	6.5	5.8	5.0
Dividend Yield	4.3%	4.6%	5.3%	5.3%	5.9%

Source: Company data, Al Rajhi Capital



<b>Balance Sheet (SARmn)</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Cash and Cash Equivalents	40	52	60	105	77
Current Receivables	181	212	325	327	385
Inventories	421	543	609	660	786
Other current assets	37	36	45	45	45
<b>Total Current Assets</b>	<b>679</b>	<b>843</b>	<b>1,038</b>	<b>1,137</b>	<b>1,293</b>
Fixed Assets	535	555	615	735	878
Investments	36	36	35	35	35
Goodwill	-	-	-	-	-
Other Intangible Assets	-	-	-	-	-
Total Other Assets	-	-	-	-	-
<b>Total Non-current Assets</b>	<b>571</b>	<b>591</b>	<b>650</b>	<b>770</b>	<b>914</b>
<b>Total Assets</b>	<b>1,250</b>	<b>1,433</b>	<b>1,689</b>	<b>1,907</b>	<b>2,207</b>
Short Term Debt	37	50	64	64	64
Accounts Payable	277	351	406	458	555
Accrued Expenses	57	69	77	89	108
Dividends Payable	-	-	-	-	-
Other Current Liabilities	11	31	12	12	12
<b>Total Current Liabilities</b>	<b>382</b>	<b>501</b>	<b>558</b>	<b>623</b>	<b>738</b>
Long-Term Debt	100	100	174	174	174
Other LT Payables	18	-	-	-	-
Provisions	27	35	38	38	38
<b>Total Non-current Liabilities</b>	<b>145</b>	<b>135</b>	<b>212</b>	<b>212</b>	<b>212</b>
Minority interests	-	-	-	-	-
Paid-up share capital	400	400	400	400	400
Total Reserves	323	398	518	672	856
<b>Total Shareholders' Equity</b>	<b>723</b>	<b>798</b>	<b>918</b>	<b>1,072</b>	<b>1,256</b>
<b>Total Equity</b>	<b>723</b>	<b>798</b>	<b>918</b>	<b>1,072</b>	<b>1,256</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>1,250</b>	<b>1,433</b>	<b>1,689</b>	<b>1,907</b>	<b>2,207</b>

Gearing ratios are at very low levels

<b>Ratios</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Net Debt (SARmn)	97	98	178	134	162
Net Debt/EBITDA (x)	0.24	0.24	0.36	0.24	0.26
Net Debt to Equity	13.5%	12.3%	19.4%	12.5%	12.9%
EBITDA Interest Cover (x)	29.9	36.4	46.3	37.0	43.2
BVPS (SAR)	18.07	19.94	22.95	26.80	31.41

<b>Cashflow Statement (SARmn)</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
<b>Net Income before Tax &amp; Minority Interest</b>	<b>385</b>	<b>413</b>	<b>490</b>	<b>535</b>	<b>597</b>
Depreciation & Amortisation	19	19	24	31	37
Decrease in Working Capital	36	(45)	(144)	11	(69)
Other Operating Cashflow	1	(23)	(6)	(13)	(15)
<b>Cashflow from Operations</b>	<b>440</b>	<b>364</b>	<b>363</b>	<b>563</b>	<b>549</b>
Capital Expenditure	(32)	(39)	(83)	(151)	(180)
New Investments	-	-	-	-	-
Others	0	0	0	-	-
<b>Cashflow from investing activities</b>	<b>(32)</b>	<b>(39)</b>	<b>(83)</b>	<b>(151)</b>	<b>(180)</b>
<b>Net Operating Cashflow</b>	<b>408</b>	<b>325</b>	<b>280</b>	<b>413</b>	<b>369</b>
Dividends paid to ordinary shareholders	(338)	(326)	(356)	(368)	(397)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	(50)	-	-	-	-
<b>Cashflow from financing activities</b>	<b>(393)</b>	<b>(313)</b>	<b>(295)</b>	<b>(368)</b>	<b>(397)</b>
Total cash generated	15	12	(15)	45	(28)
Cash at beginning of period	24	40	52	60	105
<b>Implied cash at end of year</b>	<b>40</b>	<b>52</b>	<b>37</b>	<b>105</b>	<b>77</b>

We expect capex to remain relatively low

<b>Ratios</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Capex/Sales	1.2%	1.3%	2.2%	3.4%	3.5%

Source: Company data, Al Rajhi Capital



## Disclaimer and additional disclosures for Equity Research

### Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

### Additional disclosures

#### 1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

**"Overweight"**: Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

**"Neutral"**: We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

**"Underweight"**: Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

#### 2. Definitions

**"Time horizon"**: Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

**"Fair value"**: We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

**"Target price"**: This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

### Contact us

**Dr. Saleh Alsuhaibani**  
Head of Research  
Tel : +966 1 2119434  
alsuhaibanis@alrajhi-capital.com

**Al Rajhi Capital**  
Research Department  
Head Office, King Fahad Road  
P.O. Box 5561  
Riyadh 11432  
Kingdom of Saudi Arabia  
Email: [research@alrajhi-capital.com](mailto:research@alrajhi-capital.com)

**Al Rajhi Capital, a subsidiary of Al Rajhi Bank, is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.**