



US\$2.133bn Market cap **87%** Free float **US\$1.596mn** Avg. daily volume

Target price **200.0** 00.0% over current
 Consensus price **194.0** -3.0% over current
 Current price **200.0** as at 26/10/2011

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Underweight **Neutral** **Overweight**

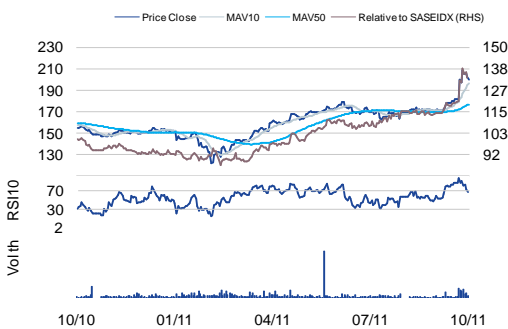
Key themes

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	4,170	4,998	5,770
Revenue Growth	18.0%	38.3%	19.9%	15.4%
EBITDA (mn)	415	526	601	661
EBITDA Growth	3.0%	26.7%	14.1%	10.1%
EPS	10.02	12.85	14.33	15.53
EPS Growth	7.2%	28.2%	11.6%	8.4%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Jarir

Growth story continues

Driven by robust smart phones and tablets sales, Jarir's Q3 results demonstrated outstanding y-o-y growth in both top and bottom lines of 64% and 49% respectively; above our expectations of 28% and 17%. By our estimates, like-for-like sales growth has been extremely strong, above 50%. Gross margin continued to contract as a result of exceptional growth in iPhone and iPad sales (which carry lower margin). Further, Jarir announced raising its capital by 50% through stock dividends. We see this news positively as it shows Jarir's commitment to its expansion plans and also increases the stock's liquidity in the market. On the back of Q3 results, we have revised our forecasts and set a new target price of SAR200. However, as the share price has recently rallied more than 20% and currently offers no upside we remain Neutral.

iPhone and iPad sales drove growth: Year-on-year sales growth of 64% in Q3 was well above our estimate of 28%. We believe that all segments' sales grew, but we attribute this outstanding growth to the faster than expected growth in smart phones and tablet sales. Jarir has about 10% market share of smart phone market, which implies a potential to increase its market share. Tablets market, on the other hand, is still juvenile and offers much more room for growth. Furthermore, we believe that school supplies and books supported Q3 sales as more days of school opening season fell within Q3 compared to last year.

Robust smart phones sales depressed margins: The continuous growth in smart phones and tablets sales has noticeably hit the company's gross margin, which contracted in Q3 by 200bps 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. However, it's worth noting that lower SG&A costs as a proportion of sales (2.7% compared to 3.3% last year) have slightly offset the decline in gross margin. We expect pressure on margin to continue but to be less adverse than that seen in Q3, considering strong school supplies sales in Q4.

iPhone 4s likely to support SSS growth: 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 50% during Q3. The launch of the new iPhone is likely to uphold smart phone sales during Q4 and H1 2012. Jarir has not received the iPhone 4s yet, but we expect it to launch in November. Furthermore, tablets have created a new sub-market and the launch of new brands is enlarging this market. Thus, we believe that Jarir has at least 9-15 months of double-digit SSS growth.

Attractive cash dividends: In addition to raising its capital through stock dividends, Jarir announced cash dividends of SAR3.4 per share for Q3; this means a total dividend of SAR8.1 per share for the first nine months. We expect a dividend of SAR2.7 for Q4, resulting in a full year dividend of SAR10.8. This implies a dividend yield of 5.4%.

Conclusion: We have raised our target price by 5%, from SAR190.6 to SAR200, as a result of increasing our earnings forecasts marginally. As the share price has recently rallied more than 20%, our new target price implies no upside potential. Therefore, we maintain our Neutral rating. It's worth noting that Jarir currently trades on a PE ratio of 15.6x and an EV/EBITDA multiple of 15.2x.



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\$)	8.00bn / 2.133bn		
52-week range	122.0 - 209.0		
Daily avg volume (US\$)	1.596mn		
Shares outstanding	40.00mn		
Free float (est)	87%		
Performance:	1M	3M	12M
Absolute	16.6%	17.6%	28.8%
Relative to index	15.8%	22.6%	31.6%
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	4,170	4,998	5,770
EBITDA (SARmn)	415	526	601	661
Net Profit (SARmn)	401	514	573	621
EPS (SAR)	10.02	12.85	14.33	15.53
DPS (SAR)	7.85	10.80	10.80	11.65
EPS Growth	7.2%	28.2%	11.6%	8.4%
EV/EBITDA (x)	18.8	15.2	13.3	12.3
P/E (x)	20.0	15.6	14.0	12.9
P/B (x)	10.0	8.8	7.6	6.6
Dividend Yield	3.9%	5.4%	5.4%	5.8%

Source: Company data, Al Rajhi Capital

Jarir Outstanding results with delightful news

Q3 results were well above our estimates

Driven by strong electronics sales (mainly iPad & iPhone), Jarir reported a robust top and bottom line growth of 64% and 49%, well above estimates of 28% and 17%. Below we present Q3 results (actual versus our estimates).

Figure 1. Jarir: 2010Q3A vs. 2011Q3E vs. 2011Q3A & 2010Q3A vs. 2011Q3E

(SAR) mn	2010Q3A	2011Q3A	YOY % chg.	2011Q3E
Total Revenues	735	1,209	64.4%	938.6
Gross Profit	127	184	45.1%	150.2
	17.2%	15.2%		16.0%
Operating Profit	102.6	150.9	47.0%	119.2
Net Income	102.9	152.9	48.6%	120.0

Source: Company data, Al Rajhi Capital

Diverse products mix creates outstanding traffic

Jarir has a very unique product mix that ranges from books, school supplies, and office supplies to laptops, smart-phones, video games, tablets, and other IT devices. By our estimates, electronics sales now accounts for 73% of total revenues. Although other segments represent less than 30% of revenues, they create a great traffic for the stores and resulted in high cross selling. In our view, this gives Jarir an edge over its pure electronics rivals such as Extra and Electro. Moreover, Jarir has been very selective in choosing its stores locations which translated into outstanding sales per square meter. Considering these factors, we expect Jarir to continue outperforming other electronics retailers and gaining market share.

iPad is creating a complete new market

The launch of the iPad last year has created a new sub-market for electronics. As expected, many other electronics producers followed and launched their own tablets (more than seven new brands), which enlarged this market. Thus, we expect the market to continue growing at a fast pace. Jarir was one of the first retailers to bring the product to the Kingdom officially, and hence, is well positioned to capture more market share. Although this may result in cannibalization over laptops, we expect it to be limited. Therefore, we believe that Jarir has at least 9-15 months of double-digit SSS growth.

Raising capital shows commitment to expansion

Jarir announced its intention to increase its share capital by 50% through stock dividends. In our view, this shows the company's commitment to its expansion plans. Although shareholders like stock dividends, this plan has no direct impact on the share price. However, we believe it could stimulate the share price as it will create more liquidity in the stock.

The launch of more than seven new tablet brands has enlarged this market

Jarir is increasing its capital by 50% through stock dividends

We expect strong Q4 performance though weaker than Q2

Q4: growth story continues

Driven by strong like-for-like sales and opening new stores, we believe that Jarir has at least 9-15 months of double-digit growth. As for Q4, we expect another round of robust growth though weaker than Q3. Below we present our estimates for Q4 and 2011 full year.

Figure 2. Jarir: 2010Q4A vs. 2011Q4E & FY2010A vs. FY2011E

(SAR) mn	2010Q4A	2011Q4E	YOY % chg.	FY2010A	FY2011E	YOY % chg.
Total Revenues	811.8	1,046.9	29.0%	3,014.6	4,169.7	38.3%
Gross Profit	133.0	153.9	15.8%	501.6	628.4	25.3%
	16.4%	14.7%		16.6%	15.1%	
Operating Profit	100.8	121.4	20.5%	395.7	505.1	27.6%
Net Income	103.7	125.6	21.2%	400.8	513.8	28.2%

Source: Company data, Al Rajhi Capital



We expect revenues to reach SAR4.1bn by the end of this year

Income Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue	2,555	3,015	4,170	4,998	5,770
Cost of Goods Sold	(2,069)	(2,513)	(3,541)	(4,272)	(4,962)
Gross Profit	486	502	628	726	808
Government Charges					
S.G. & A. Costs	(102)	(106)	(123)	(154)	(185)
Operating EBIT	384	396	505	573	623
Cash Operating Costs	(2,152)	(2,599)	(3,644)	(4,398)	(5,108)
EBITDA	403	415	526	601	661
Depreciation and Amortisation	(19)	(19)	(21)	(28)	(38)
Operating Profit	384	396	505	573	623
Net financing income/(costs)	(13)	(11)	(7)	(16)	(17)
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	14	29	31	31	31
Other Expenses					
Net Profit Before Taxes	385	413	529	588	637
Taxes	(11)	(12)	(15)	(15)	(16)
Minority Interests	-	-	-	-	-
Net profit available to shareholders	374	401	514	573	621
Dividends	(295)	(314)	(432)	(432)	(466)
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	13.37	15.02	16.48
EPS (SAR)	9.35	10.02	12.85	14.33	15.53
DPS (SAR)	7.37	7.85	10.80	10.80	11.65

We expect revenues growth above 15% over the next three years

Growth	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue Growth	1.4%	18.0%	38.3%	19.9%	15.4%
Gross Profit Growth	11.7%	3.1%	25.3%	15.6%	11.2%
EBITDA Growth	10.7%	3.0%	26.7%	14.1%	10.1%
Operating Profit Growth	9.9%	2.9%	27.6%	13.4%	8.8%
Net Profit Growth	12.4%	7.2%	28.2%	11.6%	8.4%
EPS Growth	12.4%	7.2%	28.2%	11.6%	8.4%

We expect gross margin to decline but to remain above 15% in 2011

Margins	12/09A	12/10A	12/11E	12/12E	12/13E
Gross profit margin	19.0%	16.6%	15.1%	14.5%	14.0%
EBITDA margin	15.8%	13.8%	12.6%	12.0%	11.5%
Operating Margin	15.0%	13.1%	12.1%	11.5%	10.8%
Pretax profit margin	15.1%	13.7%	12.7%	11.8%	11.0%
Net profit margin	14.6%	13.3%	12.3%	11.5%	10.8%

Impressive ROE of 60%

Other Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
ROCE	45.7%	44.1%	45.2%	45.5%	42.0%
ROIC	45.7%	48.9%	57.0%	50.7%	49.8%
ROE	53.1%	52.7%	60.3%	58.6%	54.9%
Effective Tax Rate	2.8%	3.0%	2.9%	2.5%	2.5%
Capex/Sales	1.2%	1.3%	2.6%	3.0%	3.2%
Dividend Payout Ratio	78.8%	78.3%	84.1%	75.4%	75.0%

Jarir is close to fair value at P/E of 15.6x and EV/EBITDA of 15.2x

Valuation Measures	12/09A	12/10A	12/11E	12/12E	12/13E
P/E (x)	21.4	20.0	15.6	14.0	12.9
P/CF (x)	20.4	19.0	15.0	13.3	12.1
P/B (x)	11.1	10.0	8.8	7.6	6.6
EV/Sales (x)	3.0	2.6	1.9	1.6	1.4
EV/EBITDA (x)	19.3	18.8	15.2	13.3	12.3
EV/EBIT (x)	20.3	19.8	15.8	14.0	13.0
EV/IC (x)	9.9	9.1	7.2	6.5	5.5
Dividend Yield	3.7%	3.9%	5.4%	5.4%	5.8%

Source: Company data, Al Rajhi Capital



Balance Sheet (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Cash and Cash Equivalents	40	52	60	82	50
Current Receivables	181	212	335	343	433
Inventories	421	543	628	692	883
Other current assets	37	36	45	45	45
Total Current Assets	679	843	1,068	1,162	1,410
Fixed Assets	535	555	643	766	912
Investments	36	36	35	35	35
Goodwill	-	-	-	-	-
Other Intangible Assets	-	-	-	-	-
Total Other Assets	-	-	-	-	-
Total Non-current Assets	571	591	678	801	948
Total Assets	1,250	1,433	1,746	1,963	2,358
Short Term Debt	37	50	79	79	79
Accounts Payable	277	351	419	481	623
Accrued Expenses	57	69	80	93	121
Dividends Payable	-	-	-	-	-
Other Current Liabilities	11	31	11	11	11
Total Current Liabilities	382	501	589	664	835
Long-Term Debt	100	100	210	210	271
Other LT Payables	18	-	-	-	-
Provisions	27	35	40	40	40
Total Non-current Liabilities	145	135	250	250	311
Minority interests	-	-	-	-	-
Paid-up share capital	400	400	400	400	400
Total Reserves	323	398	507	649	812
Total Shareholders' Equity	723	798	907	1,049	1,212
Total Equity	723	798	907	1,049	1,212
Total Liabilities & Shareholders' Equity	1,250	1,433	1,746	1,963	2,358

Gearing ratios are at very low levels

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Net Debt (SARmn)	97	98	230	208	301
Net Debt/EBITDA (x)	0.24	0.24	0.44	0.35	0.45
Net Debt to Equity	13.5%	12.3%	25.3%	19.8%	24.8%
EBITDA Interest Cover (x)	29.9	36.4	74.6	36.9	38.0
BVPS (SAR)	18.07	19.94	22.68	26.22	30.31

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Cashflow Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Net Income before Tax & Minority Interest	385	413	529	588	637
Depreciation & Amortisation	19	19	21	28	38
Decrease in Working Capital	36	(45)	(159)	4	(110)
Other Operating Cashflow	1	(23)	(4)	(15)	(16)
Cashflow from Operations	440	364	387	605	549
Capital Expenditure	(32)	(39)	(109)	(151)	(185)
New Investments	-	-	-	-	-
Others	0	0	0	-	-
Cashflow from investing activities	(32)	(39)	(109)	(151)	(185)
Net Operating Cashflow	408	325	279	454	365
Dividends paid to ordinary shareholders	(338)	(326)	(404)	(432)	(457)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	(50)	-	-	-	-
Cashflow from financing activities	(393)	(313)	(294)	(432)	(396)
Total cash generated	15	12	(15)	22	(32)
Cash at beginning of period	24	40	52	60	82
Implied cash at end of year	40	52	37	82	50

We expect capex to remain relatively low

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Capex/Sales	1.2%	1.3%	2.6%	3.0%	3.2%

Source: Company data, Al Rajhi Capital

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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.

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