

Jarir Marketing Company

Retail Sector

JARIR AB: Saudi Arabia

09 January 2011

الراجحي المالية
Al Rajhi Capital



US\$1.648bn Market cap
87% Free float
US\$1.054mn Avg. daily volume

Target price **189.4** 22.6% over current
Consensus price **176.0** 13.9% over current
Current price **154.5** as at 8/1/2011

Research Department
Khalid Alruwaigh, Investment Analyst
Tel 966 1 211 9310, alruwaighka@alrajhi-capital.com

Existing rating

Underweight

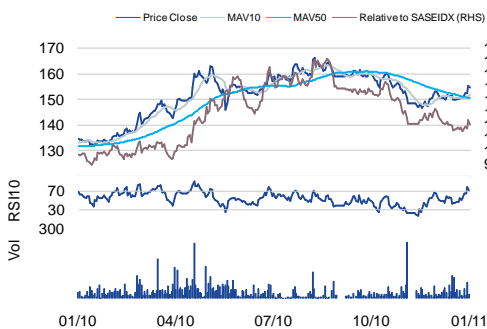
Neutral

Overweight

Flash View

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance



Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (mn)	2,555	3,048	3,520	4,045
Revenue Growth	1.4%	19.3%	15.5%	14.9%
EBITDA (mn)	403	439	494	564
EBITDA Growth	10.7%	9.0%	12.5%	14.1%
EPS	9.35	10.34	10.97	12.68
EPS Growth	12.4%	10.6%	6.0%	15.7%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Jarir Marketing

Q4: below expectations

Jarir released Q4 results with modest year-on-year growth in revenues of 12%, and weak growth in net income of 0.2%. Revenue growth was slightly below our expectation of 15%, but net income growth was far below our forecast of 12%. We suspect that growth in electronics has squeezed margins more severely than we had expected, but we have to wait for full results to confirm that. However, the full year results were generally strong with sales and net income growth of 18% and 7.2% respectively. Therefore, we expect to maintain our Overweight rating but lower our target price slightly.

Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Revenues:** Year-on-year growth of 12% in Q4 was below our estimate of 15%. Although Q4 sales growth was respectable, it was well below that of the previous three quarters. The obvious explanation is that the base period (Q4 2009) was extremely strong compared to other quarters in 2009. We actually had expected Q4 to be weaker than the other quarters; however, it turned out to be rather weaker than we had expected. However, Q4 sales growth of 12% is a solid outcome, and our main concern is declining profit margins.
- Net profit:** Net profit grew by just 0.2% year-on-year in Q4. As in the prior three quarters, the gross margin declined, this time from 18.9% in Q4 2009 to 16.4%. Declining profit margins have been a continuous concern since Q1 2010. The Q4 gross margin of 16.4% is still within the range of the rest of 2010, but at the low end. We suspect that the lower-margin electronics segment is growing faster than we had assumed, and hence that it is squeezing margins for the group faster than what we had assumed.
- Same Store Sales growth still healthy:** Jarir opened only three new stores in 2010, and did not open any in Q4. We thus believe that like-for-like sales growth remains at a strong level of above 10%, implying that over 80% of sales came from existing stores. This is one of the key facts we like about Jarir. We expect same store sales growth to stay above 8% in 2011.
- Valuation:** Jarir is a well-respected company with strong positions in the electronics, office and school supplies, and books markets. Although Q4 results were below our expectations, the full-year results were respectable and not far below our forecasts. Moreover, we still expect strong same store sales growth, a handsome dividend yield, high economic profit and the company's transparency to support the stock price. Therefore, we expect to maintain our Overweight rating but to lower our target price slightly.

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 and in Egypt.

Share information

Market cap (SAR/US\$) 6.18bn / 1.648bn
52-week range 131.8 - 166.0
Daily avg volume (US\$) 1.054mn
Shares outstanding 40.00mn
Free float (est) 87%

Performance:

	1M	3M	12M
Absolute	1.6%	-3.4%	15.3%
Relative to index	-2.6%	-8.3%	7.8%

Major Shareholder:

Jarir Investment company	12%
Mohammed Abdulrahman Alaqeel	9%

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	2,555	3,048	3,520	4,045
EBITDA (SARmn)	403	439	494	564
Net Profit (SARmn)	374	414	439	507
EPS (SAR)	9.35	10.34	10.97	12.68
DPS (SAR)	7.37	8.24	8.62	9.05
EPS Growth	12.4%	10.6%	6.0%	15.7%
EV/EBITDA (x)	14.7	13.6	12.2	10.7
P/E (x)	16.2	14.7	13.8	12.0
P/B (x)	8.4	7.5	6.7	5.7
Dividend Yield	4.9%	5.4%	5.7%	6.0%

Source: Company data, Al Rajhi Capital

Jarir

Q4 and 2010 full year results

Figure 1. Jarir: 2009Q4A vs. 2010Q4A & FY2009A vs. FY2010A

(SAR) mn	2009Q4A	2010Q4A	YOY % chg.	FY2009A	FY2010A	YOY % chg.
Total Revenues	724	812	12.1%	2,555	3,015	18.0%
Gross Profit	137	133	-2.9%	486	502	3.1%
	18.9%	16.4%		19.0%	16.6%	
Operating Profit	104	101	-3.4%	385	396	2.9%
Net Income	103	104	0.2%	374	401	7.2%

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

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