



US\$1.539bn Market cap	87% Free float	US\$1.193mn Avg. daily volume
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Target price	182.0	26.2% over current
Consensus price	176.0	22.0% over current
Current price	144.3	as at 5/2/2011

Research Department
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Underweight	Neutral	Overweight
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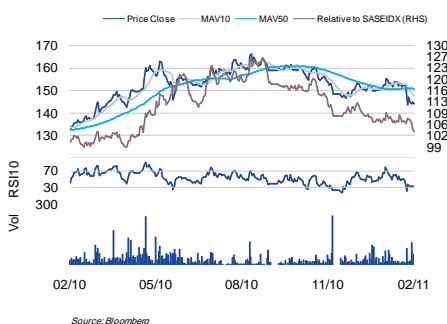
Key themes

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 our preferred stock in the retail sector. It is performing well operationally. Although its share price has performed well and obviously is not cheap anymore, we expect strong SSS, high transparency, and handsome dividend yield to support Jarir's share price.

Performance

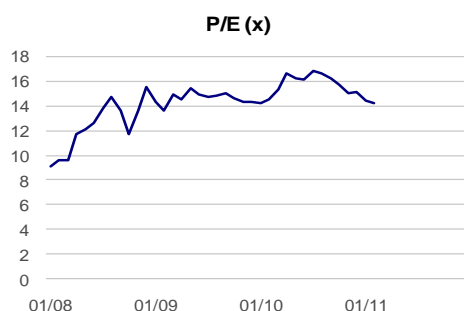


Earnings

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	3,015	3,467	3,976	4,509
Revenue Growth	18.0%	15.0%	14.7%	13.4%
EBITDA (mn)	418	458	507	563
EBITDA Growth	3.8%	9.6%	10.7%	10.9%
EPS	10.02	10.95	12.12	13.14
EPS Growth	7.2%	9.2%	10.7%	8.5%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Jarir

Growth offsets declining margins

This report follows our Flash View of 9th January. Jarir's Q4 results showed modest year-on-year growth in sales of 12% and weak growth in net income of 0.2%. Revenue growth was slightly below our forecast of 15%, but net income growth was far below our forecast of 12%. Strong sales in electronics coupled with high SG&A costs have squeezed margins more severely than we had expected. However, the full-year results were generally strong with growth in sales and net profit of 18% and 7% respectively. We expect sales growth in 2011 of above 15%, but further contraction in margins. We have trimmed our target price to SAR182, but this still implies 26% upside. We remain Overweight.

Revenue growth supports our stance: Year-on-year sales growth of 12% in Q4 was below our estimate of 15%. Although this growth was respectable, it was well below that of the previous three quarters. The explanation is that the base period (Q4 2009) was very strong compared to other quarters in 2009. We had expected Q4 to be weaker than the other quarters; nevertheless, the outcome was below our expectation. However, Q4 sales growth of 12% is a solid outcome, and our main concern is declining profit margins. Driven by strong like-for-like sales growth and opening new stores, we expect sales growth to remain strong in 2011 at above 15% compared to 18% for 2010 as a whole.

Fast-growing electronics continues to squeeze margins: 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. SG&A costs were also unusually high at 4.2% of sales. Looking forward, although we expect the contraction in margins to continue, we expect the gross margin to remain at close to 16% level. Moreover, we assume that SG&A costs will return to a more normal level of 3.6% of sales.

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. Driven by smartphones, tablets, and other electronic devices, we expect same store sales growth to remain above 8% in 2011. Furthermore, Jarir plans to open four new stores during this year which should support the company's growth.

Conclusion: Jarir is a well-respected company with strong positions in the electronics, office and school supplies, and books markets. Jarir's attractions include strong same store sales growth, a high dividend yield, high economic profit and general transparency. Although Q4 results were below our forecasts, the full-year results were respectable and not far below our estimate. We have lowered our target price (derived through a combination of long-run discounted economic profit valuation and comparative multiples analysis) by 4%, from SAR189.4 to SAR182.0, as a result of cutting our earnings forecasts marginally. However, our new target price still implies 26% upside potential. Therefore, we remain Overweight. Jarir trades on a PE ratio of 13.2x and an EV/EBITDA multiple of 12.5x, and offers an attractive dividend yield of 5.7%.



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 Egypt.

Share information

Market cap (SAR/US\$)	5.77bn / 1.539bn		
52-week range	133.0 - 166.0		
Daily avg volume (US\$)	1.193mn		
Shares outstanding	40.00mn		
Free float (est)	87%		
Performance:	1M	3M	12M
Absolute	-7.1%	-6.5%	8.1%
Relative to index	-4.6%	-9.5%	4.1%

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	3,467	3,976	4,509
EBITDA (SARmn)	418	458	507	563
Net Profit (SARmn)	401	438	485	526
EPS (SAR)	10.02	10.95	12.12	13.14
DPS (SAR)	8.24	8.62	9.05	9.50
EPS Growth	7.2%	9.2%	10.7%	8.5%
EV/EBITDA (x)	13.5	12.5	11.4	10.5
P/E (x)	14.4	13.2	11.9	11.0
P/B (x)	7.2	6.4	5.6	4.9
Dividend Yield	5.7%	6.0%	6.3%	6.6%

Source: Company data, Al Rajhi Capital

Looking forward: similar scenario in 2011

We expect strong sales growth and decent profit growth in 2011

Regarding the top line, we expect Jarir to achieve sales growth of above 15% in 2011 driven by strong same-store sales growth and new store openings. Driven by smartphones, tablets, and other electronic devices, we expect same store sales growth to remain above 8% in 2011.

Figure 1. Jarir: 2010Q1A versus 2011Q1E and FY2010A versus FY2011E

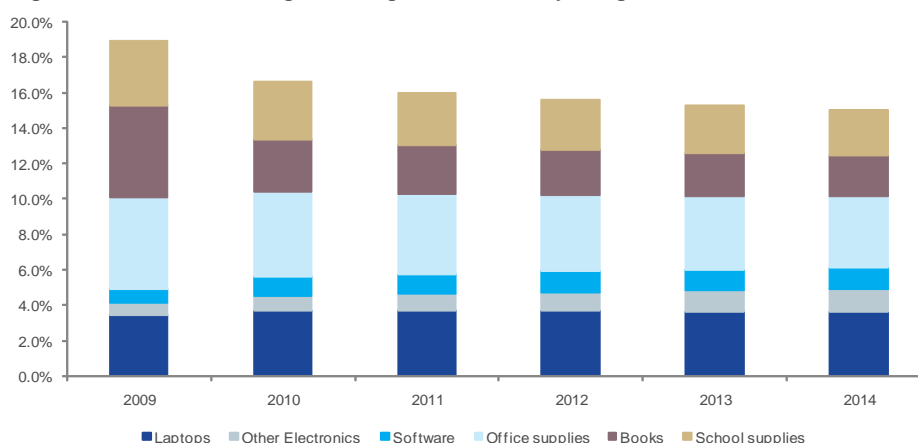
(SAR) mn	2010Q1A	2011Q1E	YOY % chg.	FY2010A	FY2011E	YOY % chg.
Total Revenues	795,473.0	893,898.3	12.4%	3,014,565.0	3,467,008.4	15.0%
Gross Profit	142,965.0	151,068.8	5.7%	501,578.0	556,122.8	10.9%
	18.0%	16.9%		16.6%	16.0%	
Operating Profit	117,544.0	122,464.1	4.2%	395,682.0	431,041.0	8.9%
Net Income	118,489.0	123,890.7	4.6%	400,805.0	437,824.7	9.2%

Source: Company data, Al Rajhi Capital

We expect the decline in gross margin in 2011 to be less severe than that in 2010

For the 2010 full year, Jarir's gross margin shrank by 2.4 percentage points from 19.0% in 2009 to 16.6%. Though we expect the margin to shrink further, we think the contraction will be less severe in 2011 at about 0.6 percentage points. This will bring the gross margin down to the 16.0% level. Our estimate reflects our assumption that smartphones, tablets and video games are driving sales growth and carry slightly higher margins than laptops. Moreover, in our view the major adverse impact on margins from the company's electronics operations has already been felt in 2010. With gross profit the key determinant of net profitability for Jarir, we expect the company to achieve respectable net profit growth of 9% in 2011.

Figure 2. Jarir: estimated gross margin breakdown by categories



Source: Company data, Al Rajhi Capital



We expect revenues to reach SAR4.5bn by 2013

Income Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue	2,555	3,015	3,467	3,976	4,509
Cost of Goods Sold	(2,069)	(2,513)	(2,911)	(3,356)	(3,819)
Gross Profit	486	502	556	620	690
Government Charges					
S.G. & A. Costs	(102)	(106)	(125)	(143)	(167)
Operating EBIT	384	396	431	477	523
Cash Operating Costs	(2,152)	(2,596)	(3,009)	(3,469)	(3,947)
EBITDA	403	418	458	507	563
Depreciation and Amortisation	(19)	(23)	(27)	(30)	(40)
Operating Profit	384	396	431	477	523
Net financing income/(costs)	(13)	(11)	(11)	(9)	(13)
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	14	29	29	29	29
Other Expenses					
Net Profit Before Taxes	385	413	449	497	539
Taxes	(11)	(12)	(11)	(12)	(13)
Minority Interests	-	-	-	-	-
Net profit available to shareholders	374	401	438	485	526
Dividends	(295)	(330)	(345)	(362)	(380)
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	10.59	11.63	12.87	14.13
EPS (SAR)	9.35	10.02	10.95	12.12	13.14
DPS (SAR)	7.37	8.24	8.62	9.05	9.50

We expect 9.2% EPS growth in 2011

Growth	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue Growth	1.4%	18.0%	15.0%	14.7%	13.4%
Gross Profit Growth	11.7%	3.1%	10.9%	11.5%	11.2%
EBITDA Growth	10.7%	3.8%	9.6%	10.7%	10.9%
Operating Profit Growth	9.9%	2.9%	8.9%	10.7%	9.6%
Net Profit Growth	12.4%	7.2%	9.2%	10.7%	8.5%
EPS Growth	12.4%	7.2%	9.2%	10.7%	8.5%

We expect the gross margin to decline but to remain above 16% in 2011, and 15% thereafter

Margins	12/09A	12/10A	12/11E	12/12E	12/13E
Gross profit margin	19.0%	16.6%	16.0%	15.6%	15.3%
EBITDA margin	15.8%	13.9%	13.2%	12.8%	12.5%
Operating Margin	15.0%	13.1%	12.4%	12.0%	11.6%
Pretax profit margin	15.1%	13.7%	13.0%	12.5%	12.0%
Net profit margin	14.6%	13.3%	12.6%	12.2%	11.7%

P/E and EV/EBITDA for Jarir are relatively high, but are justified by the company's strong growth

Other Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
ROCE	45.7%	44.1%	43.3%	40.3%	36.7%
ROIC	42.5%	44.6%	44.3%	44.5%	41.3%
ROE	53.1%	52.7%	51.7%	50.5%	47.9%
Effective Tax Rate	2.8%	3.0%	2.5%	2.5%	2.5%
Capex/Sales	1.2%	1.3%	2.0%	5.5%	5.0%
Dividend Payout Ratio	78.8%	82.3%	78.7%	74.7%	72.3%
Valuation Measures	12/09A	12/10A	12/11E	12/12E	12/13E
P/E (x)	15.4	14.4	13.2	11.9	11.0
P/CF (x)	14.7	13.6	12.4	11.2	10.2
P/B (x)	8.0	7.2	6.4	5.6	4.9
EV/Sales (x)	2.2	1.9	1.6	1.5	1.3
EV/EBITDA (x)	14.0	13.5	12.5	11.4	10.5
EV/EBIT (x)	14.7	14.3	13.3	12.1	11.2
EV/IC (x)	6.6	6.0	5.5	4.7	4.0
Dividend Yield	5.1%	5.7%	6.0%	6.3%	6.6%

Source: Company data, Al Rajhi Capital



Jarir has a healthy and strong balance sheet

Balance Sheet (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Cash and Cash Equivalents	40	52	26	50	50
Current Receivables	181	212	300	298	338
Inventories	421	543	563	608	690
Other current assets	37	36	36	36	36
Total Current Assets	679	843	925	992	1,114
Fixed Assets	535	555	597	786	972
Investments	36	36	36	36	36
Goodwill	-	-	-	-	-
Other Intangible Assets	-	-	-	-	-
Total Other Assets	-	-	-	-	-
Total Non-current Assets	571	591	633	821	1,007
Total Assets	1,250	1,433	1,558	1,813	2,121
Short Term Debt	37	50	50	50	50
Accounts Payable	277	351	375	429	487
Accrued Expenses	57	69	71	84	95
Dividends Payable	-	-	-	-	-
Other Current Liabilities	11	31	31	31	31
Total Current Liabilities	382	501	528	594	662
Long-Term Debt	100	100	100	163	251
Other LT Payables	18	-	-	-	-
Provisions	27	35	35	35	35
Total Non-current Liabilities	145	135	135	197	286
Minority interests	-	-	-	-	-
Paid-up share capital	400	400	400	400	400
Total Reserves	323	398	495	622	773
Total Shareholders' Equity	723	798	895	1,022	1,173
Total Equity	723	798	895	1,022	1,173
Total Liabilities & Shareholders' Equity	1,250	1,433	1,558	1,813	2,121

Gearing ratios are at very low levels

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Net Debt (SARmn)	97	98	124	163	251
Net Debt/EBITDA (x)	0.24	0.23	0.27	0.32	0.45
Net Debt to Equity	13.5%	12.3%	13.9%	15.9%	21.4%
EBITDA Interest Cover (x)	29.9	36.7	42.1	56.3	44.1
BVPS (SAR)	18.07	19.94	22.39	25.56	29.31

Cashflow Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Net Income before Tax & Minority Interest	385	413	449	497	539
Depreciation & Amortisation	19	23	27	30	40
Decrease in Working Capital	36	(45)	(82)	23	(53)
Other Operating Cashflow	(12)	(12)	(22)	(21)	(26)
Cashflow from Operations	426	379	372	529	500
Capital Expenditure	(32)	(39)	(69)	(219)	(225)
New Investments	-	-	-	-	-
Others	0	0	-	-	-
Cashflow from investing activities	(32)	(39)	(69)	(219)	(225)
Net Operating Cashflow	395	340	303	310	274
Dividends paid to ordinary shareholders	(338)	(326)	(340)	(358)	(376)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	(50)	-	-	-	-
Cashflow from financing activities	(393)	(313)	(340)	(295)	(287)
Total cash generated	2	27	(37)	15	(13)
Cash at beginning of period	24	40	52	26	50
Implied cash at end of year	26	67	15	41	37

We expect capex to increase as a result of expansion plans

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Capex/Sales	1.2%	1.3%	2.0%	5.5%	5.0%

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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