



**US\$1.696bn** Market cap  
**87%** Free float  
**US\$1.921mn** Avg. daily volume

Target price **185.4** 16.58% over current  
Consensus price **176.0** 10.7% over current  
Current price **159.0** as at 25/4/2011

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Underweight

Neutral

**Overweight**

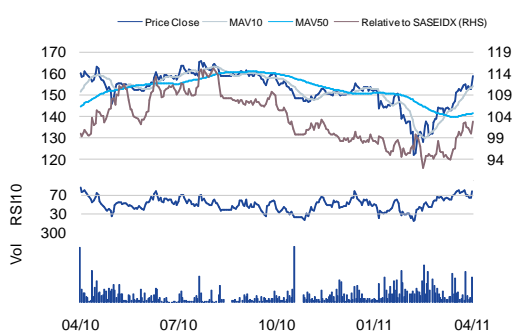
## Key themes

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 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

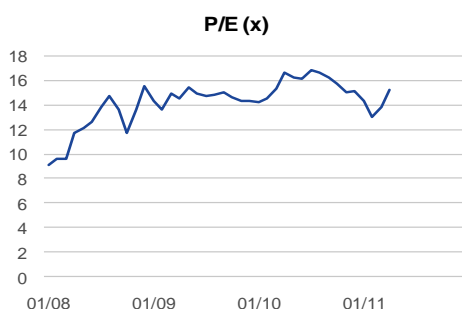


## Earnings

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	3,015	3,505	4,004	4,553
Revenue Growth	18.0%	16.3%	14.3%	13.7%
EBITDA (mn)	415	478	525	578
EBITDA Growth	3.0%	15.2%	9.7%	10.2%
EPS	10.02	11.43	12.33	13.41
EPS Growth	7.2%	14.0%	7.9%	8.7%

Source: Company data, Al Rajhi Capital

## Valuation



Source: Company data, Al Rajhi Capital

# Jarir

## Q1: remarkable growth

*This report follows our Flash View of 20th April. Jarir's Q1 results showed robust year-on-year growth in both top and bottom lines of 19% and 15% respectively; above our expectations of 12% and 5%. Driven by better margins than last year's and low SG&A costs, gross and operating profits remarkably grew by 14% and 15%, which alleviates the concerns of contracting margins and supports our view that the major adverse impact on margins from the company's electronics operations has already been felt in 2010. By our estimates, like-for-like sales growth has been extremely strong, above 13% driven by new electronics sales, mainly smart phones. We expect Q2 results to be strong in terms of both revenues and profits. We remain Overweight with a revised target price to SAR185.4, implying 17% upside.*

**Revenue growth supports our stance:** Year-on-year sales growth of 19% in Q1 was well above our estimate of 12%. We attribute this high growth to the faster than expect growth in smart phones. Jarir reported revenues of SAR945mn in Q1 2011 opposed to SAR795mn in 2010 same period. We believe that all segments' sales grew, but electronics continued to drive sales. We also suspect that new electronics, mainly smart phones, are taking over and outperformed other categories in terms of sales growth. Driven by strong like-for-like sales growth and opening new stores, we expect sales growth above 15% in 2011.

**Decent gross margin coupled with low SG&A costs:** Jarir reported gross profit of SAR163mn; this implies a gross margin of 17.2%, which is slightly better than our estimate of 16.9% and last year's of 16.6%. This alleviates the pressure from declining profit margins which has been a continuous concern since Q1 2010. It also supports our view that the major adverse impact on margins from the company's electronics operations has already been felt in 2010. Jarir attributed this improvement to stronger accessories sales and higher margins in smart phones as the company was focusing on gaining market share in 2010. SG&A costs were below normal level as vendors incurred most of marketing expenses. This improvement directly translated in the net profit which grew by 15% year-on-year from SAR118mn in Q1 2010 to SAR136mn in Q1 2011.

**Same store sales growth still healthy:** Jarir hasn't opened any new store in Q1 2011. In 2010, it opened two stores in which one of them was a replacement of another old store. We thus believe that like-for-like sales growth remains at a strong level of above 13%, implying that over 70% of sales came from existing stores. Driven by new electronics sales coupled with underpenetrated internet market in the kingdom, we expect same store sales growth to remain above 9% in 2011. Furthermore, Jarir plans to open four new stores during this year which should support the company's growth as well.

**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. We have raised our target price by 2%, from SAR182.0 to SAR185.4, as a result of increasing our earnings forecasts marginally. Our new target price implies 17% upside potential. Therefore, we remain Overweight. Jarir trades on a PE ratio of 13.9x and an EV/EBITDA multiple of 13.3x, and offers an attractive dividend yield of 5.2%.



### 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\$)	6.36bn / 1.696bn		
52-week range	122.0 - 166.0		
Daily avg volume (US\$)	1.921mn		
Shares outstanding	40.00mn		
Free float (est)	87%		
Performance:	1M	3M	12M
Absolute	10.4%	4.4%	2.9%
Relative to index	5.3%	5%	5.9%
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	3,505	4,004	4,553
EBITDA (SARmn)	415	478	525	578
Net Profit (SARmn)	401	457	493	536
EPS (SAR)	10.02	11.43	12.33	13.41
DPS (SAR)	7.85	8.21	8.62	9.12
EPS Growth	7.2%	14.0%	7.9%	8.7%
EV/EBITDA (x)	15.0	13.3	12.2	11.2
P/E (x)	15.9	13.9	12.9	11.9
P/B (x)	8.0	6.8	5.9	5.0
Dividend Yield	4.9%	5.2%	5.4%	5.7%

Source: Company data, Al Rajhi Capital

**Figure 1. Jarir: 2010Q1A vs. 2011Q1E vs. 2011Q1A & 2010Q2A vs. 2011Q2E**

(SAR) mn	2010Q1A	2011Q1E	2011Q1A	YOY % chg.	2010Q2A	2011Q2E	YOY % chg.
<b>Total Revenues</b>	<b>795.5</b>	<b>893.9</b>	<b>945.6</b>	<b>18.9%</b>	<b>672</b>	<b>779</b>	<b>16.0%</b>
Gross Profit	143.0	151.1	162.7	13.8%	99	116	17.5%
	18.0%	16.9%	17.2%		14.7%	14.9%	
<b>Operating Profit</b>	<b>117.5</b>	<b>122.5</b>	<b>135.5</b>	<b>15.3%</b>	<b>74.7</b>	<b>87.3</b>	<b>16.8%</b>
<b>Net Income</b>	<b>118.5</b>	<b>123.9</b>	<b>136.8</b>	<b>15.4%</b>	<b>75.8</b>	<b>90.1</b>	<b>18.9%</b>

Source: Company data, Al Rajhi Capital



We expect revenues to reach SAR3.5bn 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>3,505</b>	<b>4,004</b>	<b>4,553</b>
Cost of Goods Sold	(2,069)	(2,513)	(2,932)	(3,368)	(3,847)
<b>Gross Profit</b>	<b>486</b>	<b>502</b>	<b>572</b>	<b>637</b>	<b>706</b>
Government Charges					
S.G. & A. Costs	(102)	(106)	(120)	(144)	(168)
<b>Operating EBIT</b>	<b>384</b>	<b>396</b>	<b>452</b>	<b>493</b>	<b>537</b>
Cash Operating Costs	(2,152)	(2,599)	(3,026)	(3,479)	(3,975)
EBITDA	403	415	478	525	578
Depreciation and Amortisation	(19)	(20)	(27)	(32)	(41)
<b>Operating Profit</b>	<b>384</b>	<b>396</b>	<b>452</b>	<b>493</b>	<b>537</b>
Net financing income/(costs)	(13)	(11)	(12)	(16)	(17)
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	14	29	29	29	29
Other Expenses					
<b>Net Profit Before Taxes</b>	<b>385</b>	<b>413</b>	<b>469</b>	<b>506</b>	<b>550</b>
Taxes	(11)	(12)	(12)	(13)	(14)
Minority Interests	-	-	-	-	-
<b>Net profit available to shareholders</b>	<b>374</b>	<b>401</b>	<b>457</b>	<b>493</b>	<b>536</b>
Dividends	(295)	(314)	(328)	(345)	(365)
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	12.09	13.14	14.43
EPS (SAR)	9.35	10.02	11.43	12.33	13.41
DPS (SAR)	7.37	7.85	8.21	8.62	9.12

We expect revenues growth above 13% over the next three years

Growth	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue Growth	1.4%	18.0%	16.3%	14.3%	13.7%
Gross Profit Growth	11.7%	3.1%	14.1%	11.3%	10.8%
EBITDA Growth	10.7%	3.0%	15.2%	9.7%	10.2%
Operating Profit Growth	9.9%	2.9%	14.2%	9.0%	9.1%
Net Profit Growth	12.4%	7.2%	14.0%	7.9%	8.7%
EPS Growth	12.4%	7.2%	14.0%	7.9%	8.7%

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

Margins	12/09A	12/10A	12/11E	12/12E	12/13E
Gross profit margin	19.0%	16.6%	16.3%	15.9%	15.5%
EBITDA margin	15.8%	13.8%	13.7%	13.1%	12.7%
Operating Margin	15.0%	13.1%	12.9%	12.3%	11.8%
Pretax profit margin	15.1%	13.7%	13.4%	12.6%	12.1%
Net profit margin	14.6%	13.3%	13.0%	12.3%	11.8%

Other Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
ROCE	45.7%	44.1%	38.6%	36.6%	34.1%
ROIC	45.7%	48.9%	51.2%	43.9%	41.4%
ROE	53.1%	52.7%	52.9%	49.0%	45.8%
Effective Tax Rate	2.8%	3.0%	2.5%	2.5%	2.5%
Capex/Sales	1.2%	1.3%	3.0%	5.5%	5.0%
Dividend Payout Ratio	78.8%	78.3%	71.8%	69.9%	68.0%

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

Valuation Measures	12/09A	12/10A	12/11E	12/12E	12/13E
P/E (x)	17.0	15.9	13.9	12.9	11.9
P/CF (x)	16.2	15.1	13.1	12.1	11.0
P/B (x)	8.8	8.0	6.8	5.9	5.0
EV/Sales (x)	2.4	2.1	1.8	1.6	1.4
EV/EBITDA (x)	15.4	15.0	13.3	12.2	11.2
EV/EBIT (x)	16.2	15.8	14.1	13.0	12.1
EV/IC (x)	7.9	7.3	5.8	5.1	4.3
Dividend Yield	4.6%	4.9%	5.2%	5.4%	5.7%

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	60	50
Current Receivables	181	212	298	296	341
Inventories	421	543	558	597	697
Other current assets	37	36	38	38	38
<b>Total Current Assets</b>	<b>679</b>	<b>843</b>	<b>954</b>	<b>991</b>	<b>1,126</b>
Fixed Assets	535	555	632	820	1,007
Investments	36	36	36	36	36
Goodwill	-	-	-	-	-
Other Intangible Assets	-	-	-	-	-
Total Other Assets	-	-	-	-	-
<b>Total Non-current Assets</b>	<b>571</b>	<b>591</b>	<b>668</b>	<b>855</b>	<b>1,042</b>
<b>Total Assets</b>	<b>1,250</b>	<b>1,433</b>	<b>1,621</b>	<b>1,847</b>	<b>2,168</b>
Short Term Debt	37	50	17	17	17
Accounts Payable	277	351	372	415	492
Accrued Expenses	57	69	71	80	96
Dividends Payable	-	-	(80)	(80)	(80)
Other Current Liabilities	11	31	33	33	33
<b>Total Current Liabilities</b>	<b>382</b>	<b>501</b>	<b>413</b>	<b>465</b>	<b>557</b>
Long-Term Debt	100	100	242	262	314
Other LT Payables	18	-	-	-	-
Provisions	27	35	36	36	36
<b>Total Non-current Liabilities</b>	<b>145</b>	<b>135</b>	<b>278</b>	<b>298</b>	<b>351</b>
Minority interests	-	-	-	-	-
Paid-up share capital	400	400	400	400	400
Total Reserves	323	398	530	683	860
<b>Total Shareholders' Equity</b>	<b>723</b>	<b>798</b>	<b>930</b>	<b>1,083</b>	<b>1,260</b>
<b>Total Equity</b>	<b>723</b>	<b>798</b>	<b>930</b>	<b>1,083</b>	<b>1,260</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>1,250</b>	<b>1,433</b>	<b>1,621</b>	<b>1,847</b>	<b>2,168</b>

Gearing ratios are at very low levels

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Net Debt (SARmn)	97	98	198	218	281
Net Debt/EBITDA (x)	0.24	0.24	0.41	0.42	0.49
Net Debt to Equity	13.5%	12.3%	21.3%	20.2%	22.3%
EBITDA Interest Cover (x)	29.9	36.4	38.4	32.5	34.6
BVPS (SAR)	18.07	19.94	23.26	27.08	31.49

Cashflow Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
<b>Net Income before Tax &amp; Minority Interest</b>	<b>385</b>	<b>413</b>	<b>469</b>	<b>506</b>	<b>550</b>
Depreciation & Amortisation	19	20	27	32	41
Decrease in Working Capital	36	(45)	(78)	15	(53)
Other Operating Cashflow	1	(23)	(11)	(13)	(14)
<b>Cashflow from Operations</b>	<b>440</b>	<b>364</b>	<b>406</b>	<b>541</b>	<b>524</b>
Capital Expenditure	(32)	(39)	(103)	(220)	(228)
New Investments	-	-	-	-	-
Others	0	0	-	-	-
<b>Cashflow from investing activities</b>	<b>(32)</b>	<b>(39)</b>	<b>(103)</b>	<b>(220)</b>	<b>(228)</b>
<b>Net Operating Cashflow</b>	<b>408</b>	<b>325</b>	<b>303</b>	<b>320</b>	<b>297</b>
Dividends paid to ordinary shareholders	(338)	(326)	(404)	(340)	(360)
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>(296)</b>	<b>(320)</b>	<b>(307)</b>
Total cash generated	15	12	6	-	(10)
Cash at beginning of period	24	40	52	60	60
<b>Implied cash at end of year</b>	<b>40</b>	<b>52</b>	<b>59</b>	<b>60</b>	<b>50</b>

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%	3.0%	5.5%	5.0%

Source: Company data, Al Rajhi Capital



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#### 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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