

# Jarir Marketing Co.

## Pressure on Margins, Despite Impressive 8.1% Sales Growth in Q1 2021

Jarir Market Co. (Jarir) saw growth in smart phones and laptops's sales during Q1 2021, leading to an impressive increase in market share. However, margins were under pressure during the quarter, due to the lower stationary sales on the back of the e-learning measures. The company's continued expansion should support revenues FY2021e, however, pressure on margins is expected to continue towards the end of the year.

Jarir was able to maintain Q4 2020's momentum, recording sales growth of 8.1% Y-o-Y (-0.9% Q-o-Q) with revenues reaching SAR2,530mn Q1 2021. Despite the muted demand on stationary, given the continued e-learning measures, the company managed to grow sales in the smart phone and computers segment, through its ecommerce platforms. E-commerce sales accounted for ~8.0% out total sales in Q1 2021, with sales growth of ~31.0% Y-o-Y. It is worth noting that during the quarter, the company was able to boost its market share in mobile phones and smart devices by over 20.0%, while laptops registered a 50% increase. The company also saw rapid growth in installment sales, which motivated plans of Jarir potentially establishing finance and installment firm in the future.

COGS for Q1 2021 grew by 8.9% Y-o-Y (6.3%) parallel to the increase in sales, however, gross profit grew by 3.1% Y-o-Y (-7.0%) from SAR327.5mn in Q1 2020 to SAR337.6mn in Q1 2021. Gross profit for Q1 2021 stood at 13.3%, a considerable drop compared to 14.0% is posted in Q1 2020. The drop in Gross profit margin is mainly due to the unfavorable sales mix, as office supplies typically yielded high margins for Jarir.

During the quarter, the company reported a drop in SG&A due to its continued efforts to maintain OPEX efficiencies, in addition to a drop in financing costs. That being said, the company reported operating profit of SAR285.5mn, representing 4.8% Y-o-Y growth (-12.5% Q-o-Q). However, Operating profit margin dropped slightly Y-o-Y from 11.6% in Q1 2020 to 11.3% in Q1 2021.

Finally Jarir reported net income of SAR267.6mn for Q1 2021, representing growth of 6.3% Y-o-Y (-7.3%) compared to SAR251.6mn in Q1 2021. Net income margin dropped slightly from 10.8% in Q1 2020 to 10.6% in Q1 2021.

During the quarter, Jarir managed to open 2 new showrooms in the kingdom, located in Al Hofuf and Al Riyadh, with subsequent financial impact to be reflected in Q2 2021, It also announced its intention to open 5 new branches during 2021.

Moreover, the company on March 17<sup>th</sup>, the company announced the distribution of 23.5% cash dividends for Q4 2020 amounting to SAR282mn (SAR2.35/share).

Despite the company's impressive sales growth during the quarter, margins remained under pressure as we previously expected. We believe that the growth in sales is merely due to the localized spending within the Kingdom as travel restrictions are still in place, however with the rapid COVID-19 vaccine rollout within the region, sales are expected to flatten out in H2 2021e.

**We update our 52 weeks target price SAR215/share with Overweight recommendation.**

22 April 2021

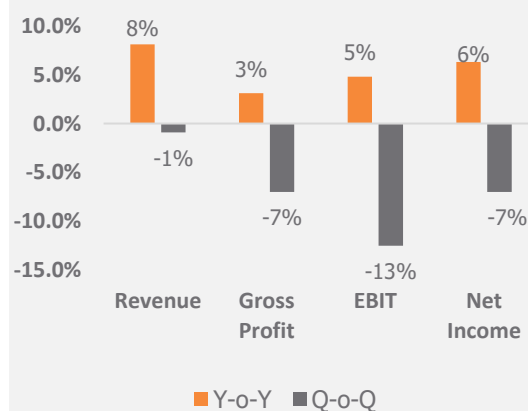
### Recommendation **Overweight**

Previous Recommendation	Neutral
Current Price (20-04-2021)	SAR192.0
<b>Target Price (52 Weeks)</b>	<b>SAR215.0</b>
Upside/ (Downside)	12%
Shariah Compliance	Pass

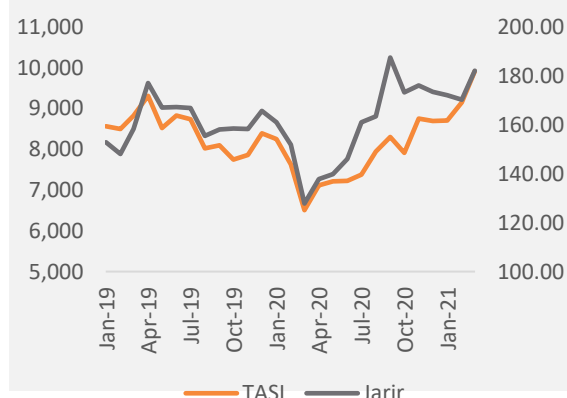
### Key Financial Ratios

Ratio	Q1 2021	Q4 2020	Q1 2020
Revenue Growth	-0.9%	25.3%	-2.2%
Gross Margin	13.3%	14.2%	14.0%
EBIT Margin	11.3%	12.8%	11.6%
Net Margin	10.6%	11.3%	10.8%

### Key Financial Results (Q1 2021)



### Share Price Performance



# Guide to Ratings and Disclaimer

## Guide to Ratings

<b>Buy</b>	An upside potential of more than 20% in 52-week period
<b>Overweight</b>	An upside Potential of more than 10% in 52-week period
<b>Neutral</b>	Will stay in the range of it value (up/down 10%) in a 52-week period
<b>Underweight</b>	A downside potential of more than 10% in 52-week period
<b>Sell</b>	A downside potential of more than 20% in 52-week period

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