

3 March 2004

Recommendation

Add*

Upside/Downside

8.6%

Target Price

SAR423.64

Current Price

SAR390.25*

Reuters Code

4190.SE

Market Cap

SAR1,873 mil.

Enterprise Value

SAR1,954 mil.

Number of Shares Outstanding

4.800 mil.

Average Weekly Turnover

SAR61.3 mil.

52-Week high/low

SAR398.75/310.00 (20Dec03/15Dec03)

Absolute Performance

3%/26%/2% (1M /3M/YTD)

Performance Relative to TASI

-3%/14%/-8% (1M /3M/YTD)

Shareholders' Structure

60.0% | **Al Agil Family**

10.0% | **Gulf Investment Corp.**

4.5% | **Olayan Financing Co.**

25.5% | **Free Float**



* Refer to back cover for investment ratings.
Based on stock price as of 2 March 2004.

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Jarir Marketing Co.

Retailing Sector | Kingdom of Saudi Arabia

"Steadily marching forward"

A growing modern retailing operation

JMC is a reseller of school supplies, office supplies, books, printed materials, computers and IT products. The company has a network of 13 bookstores in the KSA and has embarked on a regional expansion plan three years ago, whereby it extended its reach to neighboring Qatar, Abu Dhabi and Kuwait. JMC's bookstores, together with five dedicated corporate sales offices, comprise the company's retail operations. Additionally, the company has been active in the wholesale market of school and office supplies in Saudi Arabia. JMC has grown to become a leading retailer and wholesaler in Saudi Arabia of all its product categories. The company has been expanding at steady rates over the last four years, growing its total selling space at a CAGR of 17%, sales at 17% and net income at 16%.

Plentiful room for growth ahead

JMC is gradually shifting its focus onto regional markets where there are relatively higher growth opportunities compared to the Saudi market. We expect JMC to open on average three new stores a year over the coming five years, expanding its network to 30 stores by 2008 (19 in the KSA and 11 abroad), compared to 15 stores as of the end of 2003 (13 in the KSA and 2 abroad). These expansions shall grow JMC bookstores' total selling space at a CAGR of 14.4% and boost revenues by an average 14.3% a year, reaching SAR1,296 million by 2008. We expect net income to grow at a slightly slower pace, recording a CAGR of 12.5%, and reaching SAR196.4 million in 2008.

We value JMC at SAR423.64 per share, offering upside potential of 8.6%

We valued JMC using three valuation methodologies, namely discounted cash flows, discounted dividends and comparison-based valuation using forecast PE multiples. We arrived at three fair values falling in the range of SAR407.18/share and SAR434.17. By taking an average of the three fair values we generated a target price per share of SAR423.64, which compares to a current market price of SAR390.25 and offers upside potential of 8.6%. Accordingly, we assigned JMC an "Add" rating.

Indicator*	2002a	2003a	2004e	2005e	2006e	2007e	2008e
Revenues (SAR 000)	541,135	663,366	766,468	891,393	1,024,960	1,160,773	1,296,107
EBITDA (SAR 000)	109,312	118,770	130,822	148,587	168,184	188,120	208,048
EBITDA margin	20.2%	17.9%	17.1%	16.7%	16.4%	16.2%	16.1%
Net income (SAR 000)	94,705	108,807	120,722	138,235	157,543	177,113	196,405
EPS (SAR)	19.73	22.67	25.15	28.80	32.82	36.90	40.92
P/E (x)	15.7	16.9	15.5	13.6	11.9	10.6	9.5
P/BV (x)	4.9	5.8	5.7	5.4	5.1	4.8	4.5
P/FCF (x)	17.9	21.9	16.3	14.2	12.2	11.8	10.2
EV/EBITDA (x)	14.4	16.2	14.8	12.9	11.2	9.9	8.8
DPS (SAR)	17.00	20.00	22.50	25.00	28.50	32.00	36.00
Dividend yield	5.5%	5.2%	5.8%	6.4%	7.3%	8.2%	9.2%

Source: JMC, BMG estimates. * P/E, P/BV, P/FCF, EV/EBITDA and dividend yield are based on the listing price of SAR310/share (on 15 December 2003) for 2002a, on the closing price of 31 December 2003 for 2003a, and on the current market price thereafter.

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Summary

A leading reseller of office supplies, school supplies, computers and IT products ...

JMC is a reseller of office supplies, school supplies, books, printed materials, computers and IT products. The company is a leading retailer and wholesaler in Saudi Arabia, running a network of 13 retail bookstores and 6 wholesale showrooms. In 2001, JMC started adopting a regional expansion plan whereby it gradually extended its operations to neighboring Qatar, Abu Dhabi, and Kuwait. JMC was entirely owned by Al Agil family until April 2000 when 40% of the company was sold to other investors in a private placement. Finally, in December 2003 JMC was listed on the Saudi stock exchange.

... with steadily improving financial performance

JMC has been delivering strong financial performance over the last four years: the company's revenues have grown at a CAGR of 17.3%. Gross Profit Margin (GPM) has been easing down due to the increasing contribution of computers and IT products to total revenues (40% in 2003 up from 22% in 2000): GPM on computers and IT products is 0.25x-0.40x GPM on other product categories. Accordingly, the bottom line has been growing at a slightly slower pace, recording a CAGR of 16.3% over the same period. JMC currently owns 41% of its total selling space and has been following a policy of leasing all recently opened bookstores. Accordingly, the company has freed up more cash outflows from investing activities and has been maintaining a high payout ratio that has averaged 86% over the last three years. The company's balance sheet is equally strong with debt to equity ratio standing at a low 0.29x as of the end of 2003.

Net income to grow at a CAGR of 12.5% over the coming five years

We expect current growth patterns to continue. JMC plans to open new bookstores in Qatar, Bahrain, Kuwait, Oman, UAE, Iraq and Egypt. We expect the company to add nine new stores in these countries over the coming five years. Additionally, we expect JMC to reinforce its position in the local market by opening six new stores over the same period. Total selling space shall reach 80K m² in 2008 up from 41K m² as of the end of 2003. These expansions, along with the expected growth in existing operations, should result in an estimated CAGR of 14.3% in revenues over the coming five years, reaching SAR1,296 million in 2008. Computers and IT products will remain a major growth driver, with its contribution reaching 51% of sales in 2008. This will cause GPM to ease down further gradually reaching 19.6% in 2008 down from 22.0% in 2003. We expect net income to grow at a CAGR of 12.5% over the coming five years, reaching SAR196.4 million in 2008, up from SAR108.8 million in 2003. JMC's need for CAPEX will remain relatively limited (not exceeding 8.3% of operating cash inflows over our forecast period). Accordingly, we expect the company to maintain a relatively high and stable payout ratio in the range of 87% to 89%.

We value JMC at SAR423.64/share, offering upside potential of 8.6%

We valued JMC using the following three valuation methodologies:

- **DCF valuation**, which generated a fair value of SAR429.56/share;
- **DDM valuation**, which generated a fair value of SAR407.18/share; and
- **Comparison-based valuation**, which generated a fair value of SAR434.17/share.

By taking an average of the three fair values we arrived at a target price per share of SAR423.64, compared to the current market price of SAR390.25; thus offering upside potential of 8.6%. Accordingly, we assigned JMC an "Add" rating.

Valuation

Discounted Cash Flow Valuation

We have valued JMC at SAR429.56/share on the basis of the DCF model. Our valuation compares to the current market price of SAR390.25 and is based on the following assumptions:

A RFR capped at 6.0%: Yields on the latest Saudi government development bond issues were used as a benchmark for Risk Free Rates (RFR). Yields on bonds with maturities of 1-4 years were used in calculating the cost of equity corresponding to Free Cash Flows (FCF) for 2004 through 2007. As for the terminal FCF, the yield on the longest maturity 10-year bond was used and adjusted upward to reflect the longer term nature of the terminal FCF. The adjustment amounted to 0.9%, which is equivalent to the yield spread between the 10-year and 30-year US treasuries.

A risk premium of 7.8%: We have used the same methodology as in our previous reports in estimating the market risk premium. The Tadawul All Share Index (TASI) has recorded a CAGR of 12.9% since 1992, while the RFR (12-M interbank rate) has averaged 5.1% over the same period; translating to a market risk premium of 7.8%. Based on JMC's strong market position, low financial leverage, and low operating leverage we have assigned JMC an average risk rating and a risk premium of 7.8%.

Immaterial and declining debt level: JMC's use of debt is limited to SAR91 million worth of overdrafts as of the end of 2003 which are used to finance part of the company's working capital. This translates to a low debt to equity ratio of 0.29x, which has a negative impact on the company's DCF valuation. We expect the company's financial leverage to decline further gradually as there are no major investing cash outflows over our forecast period.

A perpetual growth rate of 6.0%: We have forecast individual FCFs for the years 2004-2008, and believe FCFs will grow at a relatively stable rate of 6.0% thereafter.

Figure 1 | DCF valuation

SAR000 unless stated otherwise	2004e	2005e	2006e	2007e	TCF*-2008e
FCF	115,084	131,521	153,870	158,246	184,071
Terminal value	0	0	0	2,415,946	0
Cost of debt	3.5%	3.5%	3.5%	3.5%	3.5%
Cost of equity	9.7%	10.2%	10.9%	11.3%	13.9%
WACC	9.4%	10.0%	10.6%	11.1%	13.6%
PV of FCF (2004-2007)	441,230				
Plus: PV of FCF (2008 onwards)	1,701,102				
Enterprise value	2,142,332				
Minus: outstanding debt	90,833				
Plus: cash	10,406				
Equity value	2,061,905				
Equity value (SAR/share)	429.56				

Source: BMG estimates. *TCF: Terminal Cash Flow

Figure 2 | DCF valuation sensitivity analysis

	Perpetual Growth Rate				
	4%	5%	6%	7%	8%
WACC - 2%	454.98	511.87	589.00	699.53	871.14
WACC - 1%	399.65	442.03	497.21	572.03	679.25
WACC	355.88	388.45	429.56	483.11	555.71
WACC + 1%	320.39	346.04	377.65	417.56	469.53
WACC + 2%	291.04	311.67	336.57	367.26	406.01

Source: BMG estimates

Dividends Discounting Model Valuation

High and stable payout ratio favors the use of DDM in valuing JMC

Considering JMC current expansion policy (leasing stores rather than owning them) we expect cash outflows for investing activities to be insignificant, as was the case over the last three years. The company has been pursuing a stable dividends policy whereby its payout ratio has averaged 86% over the last three years. We expect payout ratio to remain in the range of 87% to 89% over our five year forecast period. Due to the high and stable payout ratios at JMC we believe it is appropriate to use the DDM to value the company's share, which generated a fair value of SAR407.18/share; 4.3% higher than the current market price of SAR390.25.

Figure 3 | DDM valuation

SAR unless stated otherwise	2004e	2005e	2006e	2007e	TD*-2008e
Dividends per share	22.50	25.00	28.50	32.00	36.00
Terminal value	0.00	0.00	0.00	457.08	0.00
Cost of equity	9.7%	10.2%	10.9%	11.3%	13.9%
2003 DPS**	20.00				
Plus: PV of dividends (2004-2007)	84.22				
Plus: PV of dividends (2008 onwards)	302.96				
Equity value (SAR/share)	407.18				

Source: BMG estimates. * TD: Terminal Dividend. ** JMC is proposing a DPS of SAR20/share for 2003 which shall be approved at the company's general assembly on 7 March 2004 and will be paid to shareholders as of the end of that day's trading session.

Figure 4 | DDM valuation sensitivity analysis

	Perpetual Growth Rate				
	4%	5%	6%	7%	8%
Cost of Equity - 2%	432.67	479.90	543.20	632.47	767.81
Cost of Equity - 1%	384.32	419.65	465.26	526.39	612.60
Cost of Equity	345.83	373.04	407.18	451.24	510.29
Cost of Equity + 1%	314.47	335.93	362.24	395.22	437.79
Cost of Equity + 2%	288.44	305.70	326.45	351.87	383.75

Source: BMG estimates

Comparison-Based Valuation

Compiling a comparable peer group

None of the companies listed on the Saudi stock exchange are in the retailing business so we have opted to compile a sample of companies operating in other countries to value JMC. We have identified the following five companies who have operations similar to those of JMC:

- **Staples**, which sells office supplies (42% of sales), business machines and related products (31%), computers and related products (21%) and office furniture (7%). Staples has operations in 9 countries worldwide.
- **Office Depot**, which sells office supplies and services (43% of sales), technology and related products (48%) and office furniture (9%). Office Depot has operations in 11 countries worldwide.
- **WH Smith**, which is a retailer of books, newspapers, magazines, and stationeries, with operations in 12 countries. WH Smith is a book publisher as well, with operations in the United Kingdom, Australia, and New Zealand. WH Smith is also a leader in newspaper and magazine distribution in the United Kingdom.
- **Best Buy**, which sells home office equipment (31% of sales), consumer electronics (34%), entertainment software (22%), appliances (6%) and other products (7%). Best Buy operations are focused on North America.
- **Circuit City**, which sells video-related products (40% of sales), audio-related products (15%), information technology-related products (32%) and entertainment-related products (13%).

The first two companies of our sample, namely Staples and Office Depot, have operations very similar to JMC; encompassing stationeries, IT-related products, and printed materials. The other three companies do

not trade in JMC's entire product mix but they complement each other in the context of our sample: WH Smith is focused on retailing of printed materials and stationeries, and has no IT-related operations, while Best Buy and Circuit City are focused on IT-related products, and do not trade in stationeries and printed materials.

We favor the use of PE multiples which generated a fair value of SAR434.17/share

We valued JMC on the basis of forecast PE and EV/EBITDA multiples for 2004e, 2005e and 2006e. We arrived at a fair value of SAR434.17/share using PE multiples and SAR214.28/share using EV/EBITDA multiples. This discrepancy is attributed to a low tax rate (zakat rate) and depreciation expense at JMC compared to our sample: JMC's taxes are projected at 3.6% of EBITDA in 2004 compared to 21.9% for our sample, and its depreciation expense is projected at 8.5% of EBITDA compared to 35.9% for our sample. A valuation based on EV/EBITDA multiples would rely entirely on earnings from operations and disregard JMC's favorable tax environment and highly utilized asset base compared to our sample. Accordingly, we have opt to disregard the valuation generated using EV/EBITDA multiples and depend on the fair value generated using PE multiples.

Figure 5 | Comparison-based valuation

SAR unless stated otherwise	PE (x)			EV/EBITDA (x)		
	2004e	2005e	2006e	2004e	2005e	2006e
JMC	15.5	13.6	11.9	14.8	12.9	11.2
Staples	20.4	17.2	14.6	11.0	9.0	7.3
Office Depot	14.8	13.2	12.0	9.4	8.5	7.2
WH Smith	19.1	16.4	14.0	10.0	8.8	7.6
Best Buy	NM	18.2	16.1	8.7	4.8	4.5
Circuit City	14.0	10.9	9.7	4.7	4.1	3.8
Average	17.1	15.2	13.3	8.7	7.0	6.1
Corresponding valuation of JMC	429.41	437.70	435.41	224.39	208.01	210.45
Fair value based on PE multiples	434.17					
Fair value based on EV/EBITDA multiples	214.28					

Source: Citiigroup, BMG estimates

A glimpse of Saudi valuation multiples

It is worth noting that JMC is currently trading at 17.2x 2003 earnings, while the Saudi stock market is currently trading at 19.2x¹ 2003 earnings; thus offering an upside potential of 16% on that basis. We are of the opinion of not using average PE multiples of the Saudi stock market in our valuation as we believe there is a possibility that local multiples might be overstated; knowing that during 2003 TASI has risen by 76%.

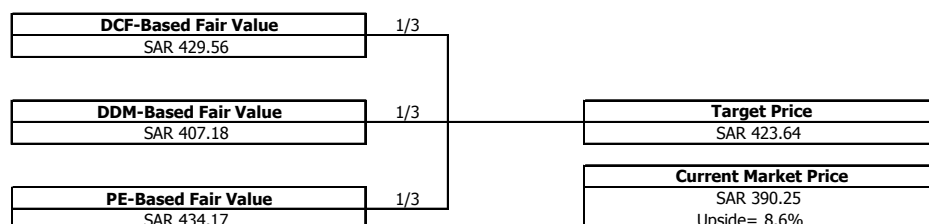
¹ Based on actual 2003 net income or annualized 2003 interim net income in case the full year results are not available yet. The average is computed as total market cap divided by total net income for 36 companies out of the 71 listed companies. These companies contributed 84% of turnover in 2003 and currently contribute 98% of total market cap.

Valuation Summary

We assign JMC an "Add" recommendation based on a target price of SAR423.64/share

By taking an average of the fair values computed using the three valuation methodologies, namely DCF, DDM and comparison-based valuation using PE multiples, we arrived at a target price per share of SAR423.64. At the current market price of SAR390.25, JMC's share has upside potential of 8.6%. Accordingly, we have assigned JMC an "Add" recommendation.

Figure 6 | Valuation Summary



Source: BMG estimates

JMC: An Overview

A small family business transformed into a public joint stock company

JMC is a retailer of school supplies, office supplies, books, printed materials, computers and IT products. The company was founded by the five sons of the late Abdulrahman Al Agil whose involvement in the office and school supplies business dates back to 1974 when he bought his first bookstore on Jarir Street in Riyadh. The late 1970s saw the expansion of the company's retail operations with the development of a corporate division to cater for the needs of corporate clients, then a wholesale division for the distribution of office and school supplies to resellers in the KSA. Gradually the company expanded geographically in Saudi Arabia, developing its current network of 13 bookstores. In 2001 the company embarked on a regional expansion plan, whereby it extended its operations to neighboring Qatar, then Abu Dhabi, and recently Kuwait.

JMC's retail and wholesale operations used to be managed under two different companies, namely Jarir Bookstore Co. (retail operations) and Jarir Marketing Co. (wholesale operations). In January 2000, Jarir Bookstore Co. was merged into JMC and three months later JMC took its first step towards widening its share ownership by offering 40% of the company for sale in a private placement, leaving the five Al Agil brothers with a combined stake of 60%, equally split between them. Finally, in December 2003 JMC listed its shares on the Saudi stock market.

Figure 7 | Private placement of 40% of JMC by the founding shareholders in April 2000

Founding Shareholders		Sale of 40%	Post-Private Placement Shareholders' Structure	
Abdulkarim Abdulrahman Al Agil	20.0%		12.0%	Abdulkarim Abdulrahman Al Agil
Abdullah Abdulrahman Al Agil	20.0%	12.0%	Abdullah Abdulrahman Al Agil	
Abdulsalam Abdulrahman Al Agil	20.0%	12.0%	Abdulsalam Abdulrahman Al Agil	
Muhammad Abdulrahman Al Agil	20.0%	12.0%	Muhammad Abdulrahman Al Agil	
Nasser Abdulrahman Al Agil	20.0%	12.0%	Nasser Abdulrahman Al Agil	
		12.6%	Jarir Investment Co.	
		10.0%	Gulf Investment Corporation	
		17.4%	Others	

Source: JMC

An overview of operations

Following the merging of Jarir Bookstore Co. and Jarir Marketing Co. into one company, JMC remains structured internally as two main divisions: the retail division and the wholesale division.

- Retail division:** This division caters for the needs of end consumers, who are either walk-in customers or corporate clients. The retail division manages 13 bookstores in the KSA, one bookstore in Qatar, one in Abu Dhabi and one in Kuwait (opened in February 2004). Bookstores carry more than 90k Stock Keeping Units (SKUs) covering the entire range of products sold at JMC, including office supplies, school supplies, computers and IT products, books and printed materials, and other products. 41% of the bookstores' total selling space is currently owned by JMC, while the rest is leased. As for the corporate clients, they are served through three corporate sales offices in Saudi Arabia, one office in Qatar and one in Abu Dhabi. Corporate sales offices offer a narrower range of products that are more in sync with corporate needs, which basically includes office supplies, computers and IT products.
- Wholesale division:** This division sells to resellers, both wholesalers and retailers. The wholesale division is focused on a relatively narrower product mix of around 8K SKUs, mostly fast moving items in the school and office supplies categories. This division operates 6 wholesale showrooms supported by 7 wholesale offices. The showrooms serve as an outlet where resellers can walk in and buy moderate wholesale volumes off the shelf, whereas the sales offices trade in larger quantities and possibly on credit.

Figure 8 | JMC Divisions

Jarir Marketing Co.			
Jarir Bookstore (Retail Division)		Jarir Marketing (Wholesale Division)	
Bookstores	Corporate Sales	Showrooms	Sales Office
» 13 Bookstores in KSA » 1 Bookstore in Qatar » 1 Bookstore in Abu Dhabi » 1 Bookstore in Kuwait	» 3 Offices in KSA » 1 Office in Qatar » 1 Office in Abu Dhabi	» 6 Showrooms in KSA	» 7 Offices in KSA
Customer	Customer	Customer	Customer
» Walk-in Customers	» Public and Private Companies (end users only)	» Resellers (Wholesalers and Retailers)	» Resellers (Wholesalers and Retailers)
Products Sold	Products Sold	Products Sold	Products Sold
» Office Supplies » School Supplies » Computers and IT Products » Books and Printed Materials » Other products	» Office Supplies » Computers and IT Products	» Office Supplies » School Supplies	» Office Supplies » School Supplies

Source: JMC

The two divisions have separate marketing, sales, merchandising, finance and accounting departments. However, they share the same warehouse and distribution network, among other supporting functions such as human resources and IT department. The two divisions complement each other in terms of marketing intelligence and product testing. JMC leverages the wholesale division to negotiate better prices and terms from its suppliers. It is worth noting that approximately 90% of JMC products are imported from suppliers in the US, Europe and the Far East.

Competent management

We believe the company is run by a strong management team with a clear vision towards expanding the company's operations in the local and regional markets. The company's management has been delivering steady growth in sales and net income that compares very favorably with similar companies in other markets. The company's management was also able to utilize its asset and capital base very efficiently, which shows in healthy returns on assets and equity.

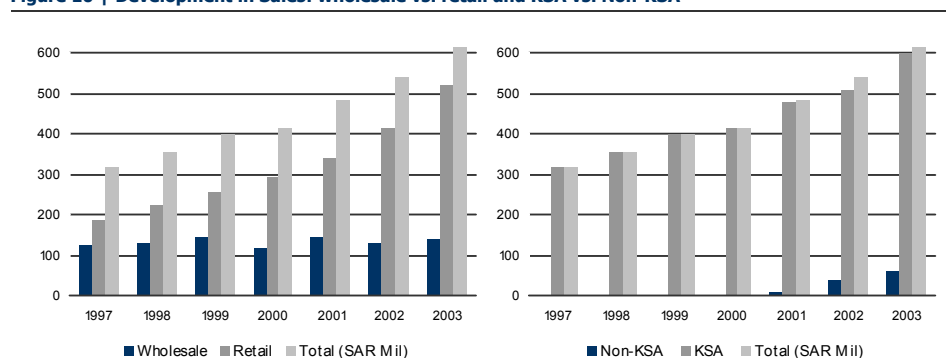
Figure 9 | Financial indicators: JMC versus comparable companies

Figures as of last available fiscal year	JMC	Staples	Office Depot	Best Buy*	Circuit City	WH Smith
Sales CAGR (last 4 yrs)	17.3%	9.1%	3.7%	18.8%	-1.8%	3.9%
Net income CAGR (last 4 yrs)	16.3%	12.3%	6.4%	21.5%	-18.7%	-38.7%
Net profit margin	16.4%	3.8%	2.7%	3.0%	1.1%	0.8%
RoAA	19.0%	9.1%	6.8%	8.3%	2.5%	2.1%
RoAE	34.9%	18.9%	20.4%	23.7%	4.2%	4.9%

Source: Staples, Office Depot, Best Buy, Circuit City, WH Smith, BMG estimates. Calculations involving net income of Best Buy are based on net income before the effect of changes in accounting principles and losses from discontinued operations.

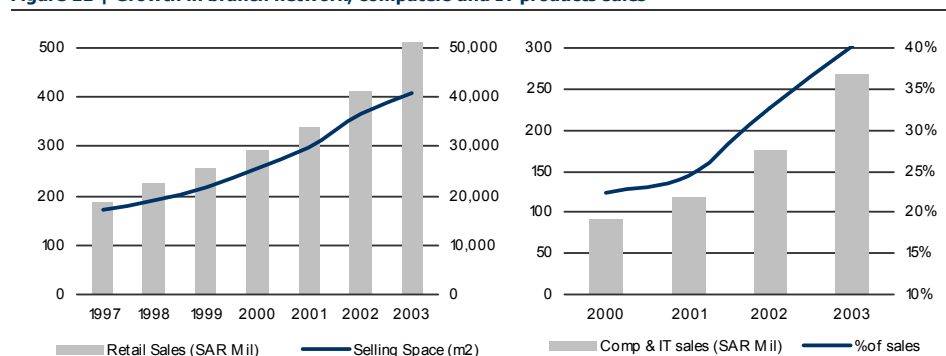
Steadily growing operations ...

JMC has been reporting steady growth in sales, with 2003 sales coming in at SAR663.4 million compared to SAR316.0 million in 1997 (CAGR of 13%). This growth was driven primarily by the retail operations: as of 2003 retail sales amounted to SAR522.9 million (78.8% of sales) up from SAR188.2 million in 1997 (59.6% of sales), while wholesales were little changed at SAR140.5 million up from SAR127.8 million in 1997. International operations have delivered very encouraging results in absolute terms since this initiative started three years ago, with Non-KSA sales reaching SAR61.7 million in 2003. However, international operations have not yet realized their potential in terms of contribution to total sales, standing at a low 9.3% in 2003, contributed by two bookstores only.

Figure 10 | Development in Sales: wholesale vs. retail and KSA vs. Non-KSA

Source: JMC

The growth in retail sales was a product of extending the company's bookstore network from 6 stores in 1997 to 15 stores in 2003, resulting in growth in total selling space from 17,133m² to 40,776m² as of the end of 2003. Additionally, the growth has been fueled by focusing on the growing computers and IT markets, whose contribution to total sales has grown from 22.3% in 2000 (SAR91.8 million) to 40.3% in 2003 (SAR267.0 million).

Figure 11 | Growth in branch network, computers and IT products sales

Source: JMC

... delivering sound financial performance

JMC runs an impressive central warehousing and distribution center in Riyadh that caters for all its operations inside and outside Saudi Arabia. This center and the company's headquarters are equipped with modern Management Information Systems (MIS) that have been a key factor in maintaining a seamless operation at JMC. This has resulted in maintaining an efficient operation and reporting remarkable financial performance: the company's bottom line has grown from SAR69.1 million in 2000 to SAR108.8 million in 2003, recording a CAGR of 16.3%.

Figure 12 | Financial highlights

SAR000, except per share figures	2000a	2001a	2002a	2003a
Net sales-retail	293,615	340,528	412,933	522,883
Net sales-wholesale	117,284	144,766	128,202	140,483
Total sales	410,899	485,294	541,135	663,366
Gross profit	107,788	114,238	133,043	145,742
EBITDA	84,660	93,093	109,312	118,770
EBITDA margin	20.60%	19.18%	20.20%	17.9%
Net income	69,124	80,044	94,705	108,807
EPS	14.40	16.68	19.73	22.67
DPS	9.00	14.00	17.00	20.00

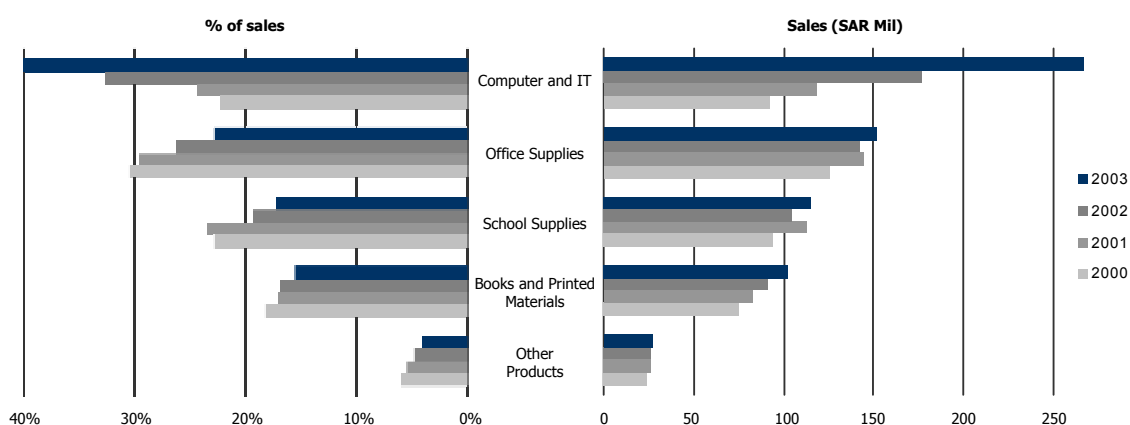
Source: JMC, BMG estimates

Market and Operation Analysis²

Growth in IT-related sales is more than 5 times growth in other product groups

Since 2000, computers and IT products sales at JMC have grown at a CAGR of 42.8% while JMC's four other product groups (school supplies, office supplies, books and printed materials, and other products) recorded a CAGR of 7.5%. The growth in computers and IT products sales was a function of increasing selling space allocated to such products, expanding the range of brands offered at Jarir Bookstores and the general growth in the computers and IT markets in Saudi Arabia. This growth has resulted in a material change in composition of JMC sales: as of 2003 computers and IT products accounted for 40.3% of sales up from 22.3% in 2000.

Figure 13 | Contribution of product groups to JMC sales



Source: JMC

Computers and IT Products

An overview of JMC's operations

This category includes a variety of products including personal computers, printers, copiers, fax machines, data storage, networking products, IT supplies, multimedia and software products. JMC targets the Small Office, Home Office (SOHO) segment of the market and adjusts its product mix in line with the needs of that segment. JMC trades in branded products only, and is an authorized dealer for IBM, HP, Compaq, Toshiba, Acer and Fujitsu Siemens. The company is also an authorized service center for Compaq and Toshiba. Computers and IT products are sold almost entirely through the retail division (bookstores and corporate sales offices), while the wholesale division's contribution had not exceeded 2% over the last four years (0.8% as of 2003).

Highlights of the Saudi computers and IT products market

The Saudi IT market is the largest among North African and GCC countries. As of 2001, total spending on computer hardware (PCs, notebooks, peripherals, servers and LAN hardware) in Saudi Arabia amounted to SAR2,215 million, while spending on computer software (system software and application software) amounted to SAR995 million. The product categories in which JMC operates are basically PCs, notebooks, peripherals and application software. These products generated SAR1,599 million worth of sales in 2001 (SAR816 million, SAR201 million, SAR237 million and SAR345 million respectively) out of Saudi Arabia's total computer hardware and software spending of SAR3,210 million. With the exception of PC sales, which have been losing market share to notebooks, the combined sales of notebooks, peripherals and application software has grown at CAGR of 21% from 1999 to 2001; providing ample room for growth which JMC has been successful in capitalizing on.

² All statistical data about the Saudi market in this section is sourced from PMResearch.

As of 2001, branded PCs/notebooks accounted for an estimated 74% of total PCs/notebooks sales in Saudi Arabia, and the brands sold at JMC accounted for around 45% of that total. JMC has developed partnerships with major vendors that have well positioned the company to benefit from the growth in these segments. JMC's market share was estimated at 3.4% of total PCs, notebooks and peripherals sales in 2001. As for software applications, vendors account for an estimated 85% of sales while indirect channels, such as JMC and CompuMe, account for the remaining 15%. JMC is Saudi Arabia's leading indirect channel with an estimated market share of 2.3% as of 2001, followed by CompuMe.

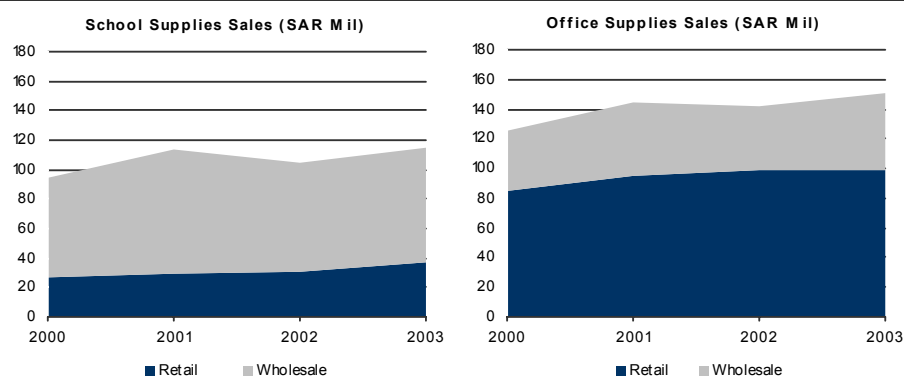
Office and School Supplies

An overview of JMC's operations

This category includes a variety of products including paper products, writing instruments, filing accessories, desk accessories, bags, games, and educational aids, among many other products. The company's suppliers include Sinar Mas, Faber Castell, 3M and Innoxrom. In order to enhance the margins on fast moving items such as paper products and writing instruments, where margins on third party brands are typically very slim, JMC has developed two private brands, ROCO™ and Royal Falcon™. These brands have been registered as trade marks owned by JMC in Saudi Arabia and several markets in the region. ROCO™ is marketed as a premium brand while Royal Falcon™ is targeted at the lower end of the market. JMC currently has around 2,000 SKUs labeled with its two brands. The company does not engage in the production of its privately labeled products and out-sources production to suppliers mostly outside the KSA. JMC has been successful in positioning and marketing its two private brands, which contributed 61% of the wholesale division's sales and 11% of the retail division's sales as of 2003. School supplies is the most seasonal product group at JMC, which tends to go through two major high seasons: one associated with the beginning of the Fall term (September and October) and another less important season associated with the beginning of the Spring term (January and February).

The retail division has been contributing a bigger portion of office supplies (66% as of 2003), supported by direct corporate sales. However, due to the fragmented nature of the school supplies sales (larger number of end users with smaller spending power), the wholesale division's contribution to school supplies sales has been more material (67% as of 2003).

Figure 14 | Contribution of retail and wholesale divisions to office and school supplies sales



Source: JMC

Highlights of the Saudi office supplies market

The office supplies market can be generally broken down into paper and board stationeries (e.g. cut paper, envelopes, folders, etc.) and other stationeries (e.g. plastic products, writing instruments, staplers, etc.). The end user demand for these two product categories is more or less mature and has generated SAR885 million worth of sales in 2001, compared to SAR847 million in 1999 (CAGR of 2.2%). An estimated SAR245 million of 2001 sales was generated through retail channels and SAR640 million through direct corporate sales. An estimated SAR645 million of total sales was sourced from wholesalers. Due to the significant contribution of paper and board stationeries to office supplies sales (61% of office supplies sales in the KSA), there tends to be a high correlation between international paper prices and the value of office supplies sales.

The retail segment of the market is fragmented with the largest ten retailers contributing an estimated 32% of total end user demand (based on 2001 figures). JMC is the leading retailer of office supplies in the Kingdom with an estimated market share of 11%.

Naturally the wholesale market is less fragmented than the retail market: the top ten wholesalers have a combined market share of around 70%. JMC ranks second in the office supplies wholesale market, with a market share of 12% (based on 2001 sales), compared to Hoshanco which had a market share close to double that of JMC. Hoshanco's strong market position lies in being the exclusive distributor of Uni-Ball and Staedtler; the two highest selling writing instruments brands in Saudi Arabia.

Highlights of the Saudi school supplies market

The school supplies market is composed of the following product categories: school bags (35% of sales as of 2001), writing instruments (25%), notepads (20%), arts and crafts supplies (13%) and other products (7%). Total spending on school supplies amounted to SAR542 million in 2001, up from SAR503 million in 1999 (CAGR of 3.8%). The retail school supplies market is similar to the retail office supplies market as it is extremely fragmented with a large number of small bookshops and supermarkets contributing an estimated 83% of sales (based on 2001 figures) while the seven largest school supplies retailers contributed around 17%. The retail division of JMC is the market leader with an estimated market share of 5.2%. As for the wholesale school supplies market, total sales amounted to SAR420 million in 2001, up from SAR375 million in 1999. The wholesale market is also less fragmented with the largest 10 companies commanding a market share around 64%. Again JMC is the market leader, capturing an estimated 20% of the market.

Books and Printed Materials

An overview of JMC's operations

This category includes Arabic and English books, cards, magazines and newspapers. Jarir Bookstores carry over 30K English titles, 19k Arabic titles from publishers across the region in addition to Arabic translations of best selling English books through a dedicated division in the name of Jarir Publications (JP). JP, which was set up in 1996, obtains copyrights from publishers in the US and Europe for translating and publishing selected best selling titles. JP manages the process while outsourcing publishing and translation. JP has already published close to 500 Arabic titles that are sold in Saudi Arabia and exported to Egypt, United Arab Emirates, Kuwait, Syria, Jordan, Oman and Lebanon. With the exception of 1%, comprised mostly of cards, all books and printed materials sold at JMC are sold through the retail division (Jarir Bookstores).

Highlights of the Saudi books market

The market for books is mainly categorized as Arabic and English markets. The total size of the Arabic book market stood at SAR280 million as of 2001, while the English books market amounted to SAR105 million. JMC is the leading retailer in both markets, with a market share around 14% of Arabic books and 29% of English books (based on 2001 figures). The book market in Saudi Arabia is relatively stable. However, English books have been losing market share to Arabic books. This is due to the increasing number of Arabic translations of English best sellers (published by JMC and Obeikan) and an increase in the number of specialized Arabic publishers (e.g. publishers of religious books).

Other Products

An overview of JMC's operations

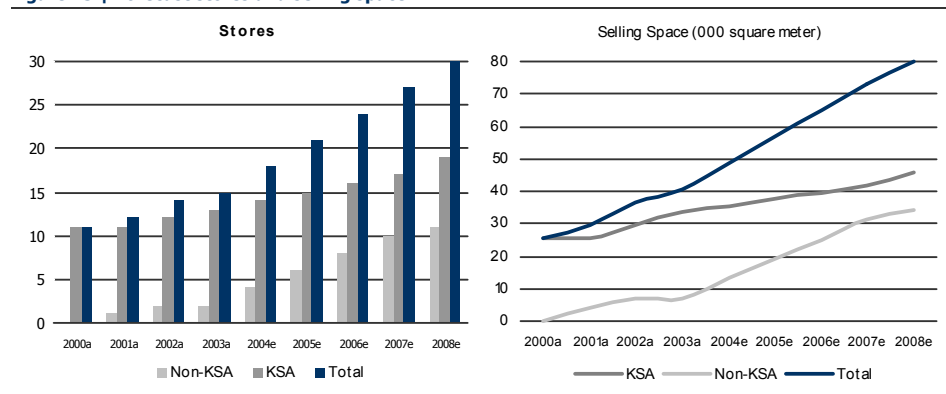
This product group includes gifts, arts and engineering products among many other items. These items generate relatively immaterial sales, however JMC carries these items to expand its product mix with the aim of reinforcing its image of being a "One Stop, Family Shop" and to increase bookstore traffic. As of 2003, 72% of other products sales was generated through the retail division while the wholesale division generated 28% of sales.

Financial Analysis and Projections

Retail revenues

JMC has been pursuing an expansion plan that is focused on extending its regional presence, while reinforcing its local network in the Saudi market. Towards that end, the company plans to open new bookstores in Kuwait, UAE, Oman, Bahrain, Qatar, Egypt and Iraq, in addition to several other stores in Saudi Arabia. We expect the company to open on average 3 stores per year, adding 6 new stores in the Saudi market and 9 new stores abroad (including the store opened in February 2004 in Kuwait) over the coming five years. This should double total number of stores to reach 30 by 2008 (19 in the KSA and 11 outside the KSA). We expect total selling space to almost double, reaching 80k m² up from the current 41k m².

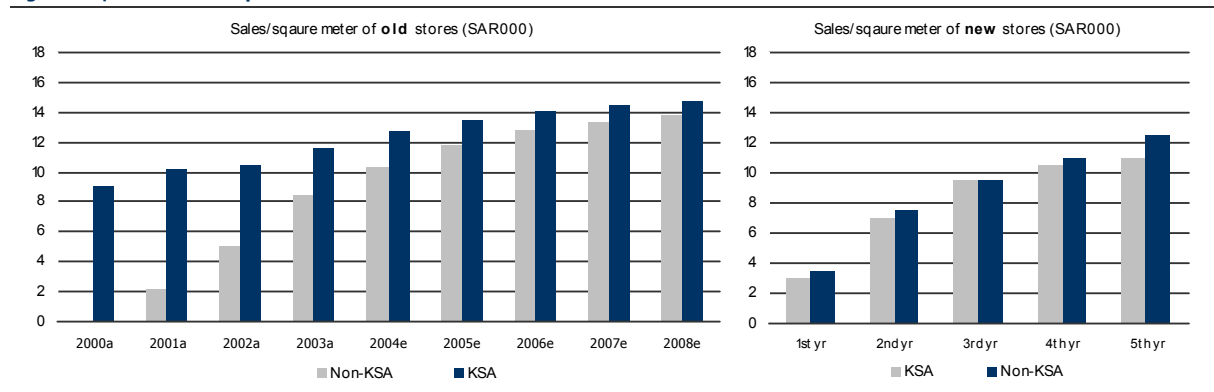
Figure 15 | Forecast stores and selling space



Source: JMC, BMG estimates

In order to forecast sales of all stores we have approached new stores and old stores, inside and outside the KSA, independently. Our forecast is based on the following assumptions.

- Old KSA stores:** Average sales per m² of old stores have been increasing since 1997, reaching SAR11,581 in 2003 up from SAR7,898 in 1997. The upward trend was a function of an increase in the average age of stores and an increase in spending, primarily on computers and IT products. We expect this trend to continue, resulting in a gradual increase in sales per m² of old KSA stores to reach SAR14,700 by 2008.
- Old Non-KSA stores:** Qatar and Abu Dhabi's bookstores has generated an impressive SAR8,390 worth of sales per m² in 2003 (up from SAR4,987 per m² in 2002), after less than three years of operation. We relate this to the high GDP per capita in Qatar and UAE (3.2x and 2.3x KSA GDP per capita, respectively). We expect the potential of Abu Dhabi's store in terms of sales per m² to be less significant than Qatar's store, owing to the lower GDP per capita in UAE (an estimated 27% lower than GDP per capita in Qatar), and higher competition is Abu Dhabi (a relatively more developed market). We forecast the two stores combined sales per square meter to reach SAR13,866 in 2008.
- New KSA stores:** We expect new stores in Saudi Arabia to generate an estimated SAR3,000 per m² in the first year of operation, which will gradually increase to reach an estimated SAR11,000 per m² in the fifth year of operation.
- New Non-KSA stores:** We expect sales per m² of new non-KSA stores to be higher than new KSA stores due to the fact that the average GDP per capita of these countries is 1.6x the per capita GDP of Saudi Arabia. New non-KSA stores shall generate sales of SAR3,500 per m² in their first year of operation that will gradually grow to reach SAR12,500 per m² in the fifth year of operation.

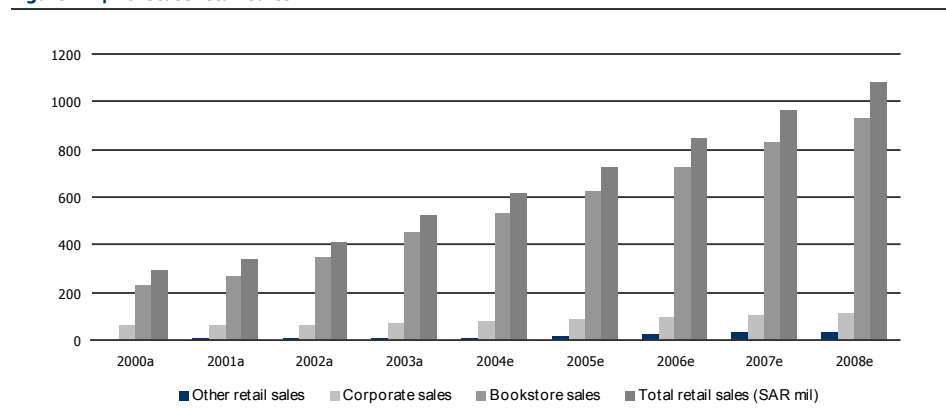
Figure 16 | Forecast sales per m² of KSA and Non-KSA stores

Source: JMC, BMG estimates

Sales of all stores should add up to SAR528 million in 2004 (up from SAR449 million in 2003) and should grow at a CAGR of 15.8% over the coming five years to reach SAR935 million by 2008.

As for corporate sales, JMC plans to open more corporate offices outside the KSA. We expect JMC to open a new corporate sales office during the second year of operations in each new city it expands into. We expect new corporate sales offices over our forecast period in Kuwait, Dubai, Bahrain, Sharjah, Baghdad and Muscat. We project total corporate sales to grow at a CAGR of 9.9%, reaching SAR112 million in 2008, up from SAR70 million in 2003.

JMC retail sales include other retail revenue items that are currently composed of sales of the company's own publications to institutions. JMC will start dedicating special areas in its stores to mobile phones and music products starting 2004, which shall contribute to this revenue line. We expect other revenue items to grow from the current level at SAR4 million to reach SAR34 million by 2008.

Figure 17 | Forecast retail sales

Source: JMC, BMG estimates

JMC is currently implementing an e-commerce strategy with two main components: a B2B module to be introduced by mid 2004 (on the customer side) and a B2C module to be launched by 2005. This strategy leverages the company's existing MIS systems while developing new distribution channels that are cost efficient and convenient to retail and corporate clients. However, the company's management does not expect this strategy to have a material effect on sales and profitability.

We expect total retail revenues to grow at a CAGR of 15.6%, reaching SAR1,081 million by 2008, up from SAR523 million in 2003.

Wholesale revenues

JMC's current wholesale operations are limited to Saudi Arabia. The company plans to start up wholesale operations in Qatar, Bahrain and Kuwait; however we do not expect the contribution of non-KSA wholesale revenues to be significant at this early stage. We forecast total wholesale revenues to grow at a lower rate than retail revenues since JMC's wholesale operations are focused on school and office supplies. The markets for these products are relatively mature and do not exhibit double digit growth rates. We expect total wholesale revenues to grow at a CAGR of 8.9% (compared to 15.6% for retail revenues), reaching SAR215 million in 2008, up from SAR140 million in 2003.

Total operating revenues

Total operating revenues shall grow at a CAGR of 14.3% over the coming five years, reaching SAR1,296 million in 2008, up from SAR663 million in 2003. The retail division's contribution to total operating revenues shall grow from the current 79% to reach 83% over the same period, while non-KSA operations' contribution shall increase to reach 29% in 2008 up from 9% in 2003.

Figure 18 | Forecast operating revenues

SAR000	2000a	2001a	2002a	2003a	2004e	2005e	2006e	2007e	2008e
Retail revenues	293,615	340,528	412,933	522,883	613,746	724,533	842,991	962,647	1,081,191
% of total revenues	71%	70%	76%	79%	80%	81%	82%	83%	83%
Wholesale revenues	117,284	144,766	128,202	140,483	152,722	166,860	181,969	198,126	214,916
% of total revenues	29%	30%	24%	21%	20%	19%	18%	17%	17%
Total revenues	410,899	485,294	541,135	663,366	766,468	891,393	1,024,960	1,160,773	1,296,107
KSA revenues	410,899	476,745	504,843	601,654	667,463	732,293	796,731	857,378	918,347
% of total revenues	100%	98%	93%	91%	87%	82%	78%	74%	71%
Non-KSA revenues	0	8,549	36,292	61,713	99,005	159,100	228,230	303,395	377,760
% of total revenues	0%	2%	7%	9%	13%	18%	22%	26%	29%
Total revenues	410,899	485,294	541,135	663,366	766,468	891,393	1,024,960	1,160,773	1,296,107

Source: JMC, BMG estimates

Gross profit margin and EBITDA margin

JMC's GPM has been generally easing down since 2000, with an exception of a dent in 2002. The primary reason for this trend is the increasing contribution of computer and IT products to total sales (40% in 2003 up from 22% in 2000); average GPM on computers and IT products is estimated at 0.25x-0.40x GPM of other product categories. However, the management attributes the temporary recovery in GPM during 2002 (24.6%, up from 23.5% in 2001) to new dealership arrangements and product selection which outweighed the adverse effect of increasing computers and IT sales on GPM. We expect GPM to ease further down in line with the increasing contribution of computers and IT sales to total revenues (51% of sales as of 2008), reaching 19.6% in 2008. EBITDA margins should follow, reaching 16.1% in 2008 down from 17.9% in 2003.

Net income

Before adopting a leasing strategy in implementing its expansion plans, JMC used to buy its buildings, use part of it in its own operations and lease the rest to other companies. Accordingly, the company has been reporting rent and other income that has amounted to SAR8.4 million in 2003. We expect this item to grow at minor rates in line with inflation as the company will acquire no more buildings. The company's need for debt financing is limited to SAR91 million in overdrafts that are used to finance working capital and we expect it to gradually decline. Interest expense stood at a low SAR3 million in 2003 (2.7% of EBITDA) and will get even more immaterial towards the end of our forecast period. We expect the company's bottom line to grow at a CAGR of 12.5% over the coming five years, reaching SAR196 million in 2008.

CAPEX, cash flows and dividends

We expect the company's need for CAPEX to be limited, spent mostly on vehicles, furniture and fixtures which shall grow in line with total selling space. CAPEX will not exceed 8.3% of operating cash inflows. This will leave the company with ample cash flows that will be used to maintain a steady payout ratio and using the balance in reducing the company's short-term debt. JMC has been maintaining a high payout ratio that has averaged 80% since 2000. We expect the company to maintain a payout ratio that will range between 87% and 89% over our forecast period.

Financial Statements

Balance Sheet

All figures in SAR 000s unless stated otherwise	2002a	2003a	2004e	2005e	2006e	2007e	2008e
Cash	5,885	10,406	10,214	20,929	44,189	56,839	80,032
Accounts receivable	89,073	94,010	97,279	103,131	109,583	115,487	122,897
Inventories	177,450	201,054	217,833	234,341	246,790	267,575	285,087
Prepaid expenses	7,105	7,342	7,709	8,095	8,500	8,925	9,371
Total current assets	279,513	312,812	333,035	366,496	409,061	448,826	497,387
Net fixed assets	279,337	274,883	273,227	269,079	264,434	265,664	260,334
Total assets	558,850	587,695	606,263	635,575	673,494	714,490	757,721
Current liabilities	64,774	62,528	67,284	74,832	81,884	87,899	92,617
Due to banks	90,036	90,833	77,208	65,627	55,783	47,416	40,303
Accrued expenses and provisions	5,034	6,305	7,065	7,877	8,643	9,307	9,841
Dividends payable	81,600	96,000	108,000	120,000	136,800	153,600	172,800
Deferred revenues	3,958	4,570	5,110	5,695	6,264	6,771	7,201
Total current liabilities	245,402	260,236	264,667	274,031	289,374	304,993	322,762
End of service indemnities	7,900	9,103	10,518	12,232	14,065	15,929	17,786
Paid in capital	240,000	240,000	240,000	240,000	240,000	240,000	240,000
Statutory reserve	24,852	35,733	47,805	61,629	77,383	95,094	114,735
Special reserve for expansion	13,085	13,085	13,085	13,085	13,085	13,085	13,085
Reserve for stock options scheme	4,000	5,800	6,300	6,800	7,300	7,800	8,300
Retained earnings	23,610	23,737	23,887	27,798	32,287	37,589	41,053
Total shareholders' equity	305,548	318,355	331,077	349,312	370,055	393,569	417,173

Source: JMC, BMG estimates

Income Statement

All figures in SAR 000s unless stated otherwise	2002a	2003a	2004e	2005e	2006e	2007e	2008e
Total revenues	541,135	663,366	766,468	891,393	1,024,960	1,160,773	1,296,107
Cost of sales and occupancy	408,092	517,624	605,559	708,931	818,842	930,697	1,041,943
Gross profit	133,043	145,742	160,909	182,462	206,118	230,076	254,164
Gross profit margin	24.6%	22.0%	21.0%	20.5%	20.1%	19.8%	19.6%
General and administrative expenses	16,089	20,331	23,084	26,654	30,469	34,379	38,290
Selling and distribution expenses	17,838	17,514	18,177	18,892	19,655	20,505	21,589
Operating income	99,116	107,897	119,648	136,917	155,995	175,192	194,285
EBITDA	109,312	118,770	130,822	148,587	168,184	188,120	208,048
EBITDA margin	20.2%	17.9%	17.1%	16.7%	16.4%	16.2%	16.1%
Rent and other income	6,594	8,446	8,868	9,311	9,777	10,266	10,779
(Loss) gain on sale of property and	-3,686	28	0	0	0	0	0
Net financing charges	-4,054	-3,266	-3,025	-2,533	-2,005	-1,348	-900
Net income before zakat	97,970	113,104	125,491	143,695	163,767	184,109	204,163
Provision for zakat	3,266	4,297	4,769	5,460	6,223	6,996	7,758
Net income	94,705	108,807	120,722	138,235	157,543	177,113	196,405

Source: JMC, BMG estimates

Cash Flow Statement

All figures in SAR 000s unless stated otherwise	2002a	2003a	2004e	2005e	2006e	2007e	2008e
Net income	94,705	108,807	120,722	138,235	157,543	177,113	196,405
Adj. to reconcile to net cash from op. act.	15,151	16,843	11,175	11,671	12,189	12,927	13,763
Changes in assets and liabilities	-12,745	-33,907	-10,204	-13,336	-10,420	-19,424	-19,183
Net cash flow from operating activities	97,111	91,743	121,693	136,570	159,312	170,617	190,986
Net cash flow from investing activities	-15,338	-6,420	-9,519	-7,523	-7,544	-14,158	-8,433
Net cash flow from financing activities	-79,103	-80,803	-109,625	-119,581	-129,844	-145,167	-160,712
Net change in cash & cash equivalents	2,671	4,521	2,549	9,466	21,924	11,292	21,840
BOP cash and cash equivalents	3,215	5,885	10,406	12,955	22,421	44,345	55,637
EOP cash and cash equivalents	5,885	10,406	12,955	22,421	44,345	55,637	77,477

Source: JMC, BMG estimates

Financial Ratios

	2002a	2003a	2004e	2005e	2006e	2007e	2008e
Growth							
Revenues	11.5%	22.6%	15.5%	16.3%	15.0%	13.3%	11.7%
Operating profit	18.6%	8.9%	10.9%	14.4%	13.9%	12.3%	10.9%
EBITDA	17.4%	8.7%	10.1%	13.6%	13.2%	11.9%	10.6%
Net profit	18.3%	14.9%	11.0%	14.5%	14.0%	12.4%	10.9%
Profitability							
Gross profit margin	24.6%	22.0%	21.0%	20.5%	20.1%	19.8%	19.6%
Operating profit margin	18.3%	16.3%	15.6%	15.4%	15.2%	15.1%	15.0%
EBITDA margin	20.2%	17.9%	17.1%	16.7%	16.4%	16.2%	16.1%
Net profit margin	17.5%	16.4%	15.8%	15.5%	15.4%	15.3%	15.2%
EPS	19.73	22.67	25.15	28.80	32.82	36.90	40.92
RoAA	17.4%	19.0%	20.2%	22.3%	24.1%	25.5%	26.7%
RoAE	31.7%	34.9%	37.2%	40.6%	43.8%	46.4%	48.5%
Leverage							
Total debt/Total assets	16.1%	15.5%	12.7%	10.3%	8.3%	6.6%	5.3%
Total debt/Equity	29.5%	28.5%	23.3%	18.8%	15.1%	12.0%	9.7%
Net debt/Equity	27.5%	25.3%	20.2%	12.8%	3.1%	-2.4%	-9.5%

Source: JMC, BMG estimates

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