

SHAKER



EVENT FLASH

Mixed set of 4Q14 results driven by provisions

Shaker reported a mixed set of results, with 4Q14 earnings of SR9mn. This is significantly below the NCBC and consensus estimates. We believe this is mainly due to a SR11.5mn one-off provision on inventory. However, on an adjusted basis earnings stood at SR20mn vs. our estimates of SR17mn which we believe may be attributed to higher sales and margins on ACs.

- NCBC View on Results:** In summary, we believe Shaker reported a mixed set of results. Net income stood at SR9mn and came-in significantly below the NCBC and consensus estimates of SR22mn and SR32mn, respectively. We believe this negative surprise is mainly attributed to a SR11.5mn provision on inventory and higher OpEx. However on an adjusted basis, net income stood at SR20mn and came-in higher than our estimates of SR17mn. This may be attributed to higher sales and higher margins on ACs.
- Higher revenues support adjusted earnings growth:** Based on our preliminary calculation, we believe revenues grew by 10.0% YoY to SR354mn vs. our estimates at SR332mn. We believe this was primarily driven by increased sales of the higher priced 3* and 4*ACs. As highlighted in our previous update, we expect organic growth of ACs to be around 15-20% based on a replacement cycle of 5-6 years. This, along with increased margins on ACs supported the adjusted earnings growth of 5.4%.
- Provisions and higher OpEx pressure earnings:** We believe higher OpEx and further provisions on inventory negated the top-line growth. Shaker recorded a provision of SR11.5mn, in addition to the SR50mn recorded last year. This compares to our estimates of a SR5mn restatement. Moreover OpEx increased significantly at 35% YoY, on higher S&D and G&A expense (+48%). On adjusted basis, EBIT is down 46.5% YoY, to SR9.1mn.
- Increased associate income supports earnings:** EBIT losses were negated by increased associate income, specifically LG Shaker. We expected associate income to stand at SR8mn and believe it was around SR15mn. Net income came-in at SR8.5mn vs. SR31.0mn losses in 4Q13. Adjusted for provisions, net income grew by 5.4% YoY to SR20.0mn vs. SR19.0mn in 4Q13 and came-in 18% above our estimates of SR17mn.
- Overweight on positive outlook:** We remain OW on Shaker with a PT of SR92.0. The company trades at a forward P/E of 16.6x, which is attractive provided the continued strong government spending.

4Q14 Results Summary

SR mn	4Q14A	4Q13A	% YoY	4Q14E	% Var [^]
Sales	NA	319.4*	NA	331.6	NA
Gross income	81.0	26.5	205.3	92.7	(12.7)
Operating income	(2.4)	(33.0)	(92.8)	25.8	NA
Net income	8.5	(31.0)	NA	40.1	(61.2)
Adj. Net income	20.0	19.0	5.4	17.0	17.8
Adj. EPS	0.57	0.54	5.4	0.49	17.8

Source: Company, NCBC Research ^ % Var indicates variance from NCBC forecasts, *Older figures

OVERWEIGHT

Target price	92.0
Current price (SR)	70.7

STOCK DETAILS

M52-week range H/L (SR)	90/58
Market cap (\$mn)	661
Shares outstanding (mn)	35
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	0.4	(16.6)	0.3
Rel. to market	2.2	1.1	4.5

Avg daily turnover (mn)	SR	US\$
3M	14.4	3.9
12M	19.6	5.2

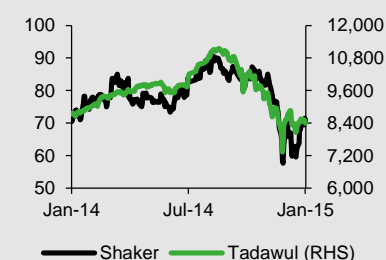
Reuters code	1214.SE
Bloomberg code	SHAKER AB
	www.shaker.com.sa

VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	13.3	5.3	16.6
P/B (x)	3.8	2.3	2.2
EV/EBITDA (x)	12.5	15.1	13.0
Div Yield (%)	3.5	3.5	4.2

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Reuters

Mohamed Tomalieh +966 12 690 7635
m.tomalieh@ncbc.com

22 JANUARY 2015

Kindly send all mailing list requests to research@ncbc.com

NCBC Research

research@ncbc.com

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

Ncbc Investment Ratings

OVERWEIGHT:	Target price represents expected returns in excess of 15% in the next 12 months
NEUTRAL:	Target price represents expected returns between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

Important information

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware, of and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under licence number 37-06046. The registered office of which is at Al Mather street in Riyadh, P.O. Box 22216, Riyadh 11495, Kingdom of Saudi Arabia.