

## SHAKER

## EVENT FLASH

## Earnings disappointment due to weak margins

Shaker reported a disappointing set of 3Q16 results, with net income down 94.9% YoY to SR2.4mn. This is significantly lower than the NCBC estimate of SR31.3mn. We believe this disappointment is mainly attributed to 1) lower margins due to the weak demand and higher competition, 2) losses from LG Shaker, and 3) higher financing expenses.

- NCBC view on the results:** Shaker reported a weak set of 3Q16 results, with net income declining 94.9% YoY to SR2.4mn. This is significantly lower than the NCBC estimate of SR31.3mn. Sales declines of 9.2% YoY due to lower spending and high competition, around 267bps YoY gross margin contraction and losses from LG Shaker negatively impacted the earnings results and led to the wide variance.
- Shaker reported a 9.2% YoY decline in sales to SR401mn. This is lower than our estimates of SR424mn. We believe the decline came from weaker overall spending levels, as reflected by the PoS data. Moreover, we believe the weakness came from competitors offering cheaper Chinese products.
- Gross margins contracted 267bps YoY to 23.5% vs. our estimates of 26.7%. We believe this is due to heavy discounts offered to support sales levels. We believe lower than expected sales of high-margin home appliances further weighed on margins. Home appliances have gross margins of 32% vs. LG AC products of 23%. Gross profit declined 18.5% YoY to SR94.4mn, lower than our estimates of SR113mn. Opex declined by 3.8% YoY, which we believe is attributed to operational efficiencies.
- We believe LG Shaker reported a loss of SR0.3mn vs. a profit of SR17.9mn in 3Q15 and our estimates of SR12.7mn in profits. This is the first 3Q loss since 2011. We believe this is due to lower utilization rates and sales volumes due to the heavy competition from Chinese products. This along with increased financing expenses of SR6.7mn vs. other income of SR0.1mn in 3Q15, led to the significant decline of 94.9% YoY in net income.
- The recent announcement on allowance cut is expected to weaken demand on discretionary/white products, thereby negatively impacting Shaker. Accordingly, earnings are expected to be revised downwards once further clarity is known on the actual impact. Shaker announced a dividend of SR0.75/share vs. our estimates of SR1.0/share, implying a yield of 6.0%. The stock is currently trading at a 2016P/E of 5.5x.

## 3Q16 Results Summary

SR mn	3Q16A	3Q15A	% YoY	3Q16E	% Var <sup>^</sup>
Sales	401.4	442.1	(9.2)	424.4	(5.4)
Gross income	94.4	115.8	(18.5)	113.3	(16.7)
Gross margin (%)	23.5%	26.2%	(2.67)	26.7%	(3.18)
Operating income	9.5	27.6	(65.4)	25.0	(61.9)
Net income	2.4	46.22	(94.9)	31.3	(92.4)
Net margin (%)	0.6%	10.5%	(9.86)	7.36%	(6.78)
EPS	0.04	0.73	(94.9)	0.50	(92.4)

Source: Company, NCBC Research <sup>^</sup>% Var indicates variance from NCBC estimates

Please refer to the last page for important disclaimer

## OVERWEIGHT

Target price (SR)	38.7
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Current price (SR)	12.5
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## STOCK DETAILS

M52-week range H/L (SR)	37/12
Market cap (\$mn)	210
Shares outstanding (mn)	63
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(29.4)	(50.0)	(65.7)
Rel. to market	(19.5)	(33.3)	(38.0)

Avg. daily turnover (mn)	SR	US\$
3M	16.1	4.3
12M	12.2	3.3

Reuters code	1214.SE
Bloomberg code	SHAKER AB
	<a href="http://www.shaker.com.sa">www.shaker.com.sa</a>

## VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	5.8	5.5	4.7
P/B (x)	0.7	0.7	0.6
EV/EBITDA (x)	13.9	11.9	9.5
Div Yield (%)	0.0	8.0	8.0

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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- OVERWEIGHT:** Target price represents an increase in the share price in excess of 15% in the next 12 months
- NEUTRAL:** Target price represents a change in the share price 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

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