

SHAKER



EVENT FLASH

Third consecutive losses on weak sales and margins

Shaker reported a disappointing set of 2Q17 results with a net loss of SR21.1mn vs. a profit of SR47.0mn in 2Q16. This is the third consecutive quarterly losses. The results were lower than the NCBC and consensus estimate of a profit of SR11.7mn and SR20.4mn, respectively. We believe the variance is attributed to 1) lower sales on weak demand and increasing competition during Ramadan season and 2) margin contraction due to promotional expenses.

- **NCBC view on the results:** Shaker reported a weak set of 2Q17 results, with net a loss of SR21.1mn against a profit of SR47.0mn in 2Q16 and a loss of SR14.9mn in 1Q17. This compares with the NCBC estimates of a profit of SR11.7mn and consensus estimate of a profit of SR20.4mn. We believe the variance is mainly attributed to 1) increasing competition and weak demand during Ramadan season which negatively impacted sales and 2) weak margins due to increased promotional expenses for its new inverter AC.
- Shaker reported a 36.8% YoY decline in sales to SR337.6mn, lower than our estimates of SR400.3mn. The management attributes the YoY decline to increasing competition and weak demand during Ramadan. We believe competition from cheaper Chinese products further impacted sales.
- Gross margins contracted 337bps YoY to 22.0% vs. our estimates of 23.0%. We believe this is due to the shift in the product mix towards low-margin AC segment from the high-margin home appliance. Home appliances have gross margins of 32% vs. LG AC products of 23%. Gross profit declined 45.2% YoY to SR74.2mn, lower than our estimates of SR92.1mn. Opex as a % of sales increased to 26.4% from 17.6% last year due to increased promotional activities for its new range of inverter ACs. Moreover, additional receivable provision of SR3.6mn was recorded during the quarter. This led to an EBIT loss of SR15.0mn vs. a profit of SR41.5mn in 2Q16.
- We believe Shaker's share of profit from its associate (LG Shaker) declined 60.0% YoY to SR5.5mn from SR13.7mn in 2Q16, vs. our estimates of SR16.0mn. Shaker has been reducing its purchases from LG Shaker to control the piling up inventory. This, along with increased financing expenses increased the net losses.
- In our June 2017 update, we downgraded Shaker to Neutral with a PT of SR13.8. The ongoing weakness in sales, contracting margins, lower profits from LG Shaker and increasing inventory are the key concerns.

2Q17 Results Summary

SR mn	2Q17A	2Q16A	% YoY	2Q17E	%Var [^]	% QoQ
Revenues	337.6	533.8	(36.8)%	400.3	(15.7)%	15.5%
Gross income	74.2	135.4	(45.2)%	92.1	(19.4)%	10.7%
Gross margin (%)	22.0%	25.4%	(337) bps	23.0%	(101) bps	(96) bps
EBIT	(15.0)	41.5**	NM	2.0	NM	NM
EBIT Margin (%)	(4.4)%	7.8%	NM	0.5%	NM	NM
Net income	(21.1)	47.0**	NM	11.7	NM	NM
Net Margin (%)	(6.2)%	8.8%	NM	2.9%	NM	NM
EPS (SR)	(0.33)	0.75	NM	0.19	NM	NM

Source: Company, NCBC Research, [^] % Var indicates variance from NCBC forecasts; **Restated

NEUTRAL

Target price (SR)	13.8
Current price (SR)	13.7
Upside/Downside (%)	1.0

STOCK DETAILS

M52-week range H/L (SR)	25/12
Market cap (\$mn)	230
Shares outstanding (mn)	63
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	4.6	(12.8)	(44.7)
Rel. to market	5.9	(16.7)	(55.7)

Avg. daily turnover (mn)	SR	US\$
3M	4.2	1.1
12M	13.4	3.6

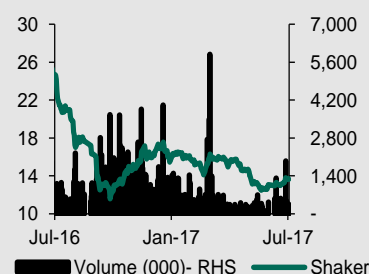
Reuters code	1214.SE
Bloomberg code	SHAKER AB
	www.shaker.com.sa

VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	17.6	NM	133.2
P/B (x)	0.8	0.8	0.8
EV/EBITDA (x)	22.0	771.2	44.7
Div Yield (%)	5.5	0.0	0.0

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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