Al-Hassan G.I. Shaker Co

Wholesale – Industrial

SHAKER AB: Saudi Arabia

27 January 2015

الراجحي المالية
Al Rajhi Capital

US$0.659bn	66%	US$3.852mn
Market cap	Free float	Avg. daily volume

Target price	91.0	28.7% over current
Consensus price	82.5	16.7% over current
Current price	70.7	**as at 21/1/2015**

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Existing rating

Underweight	Neutral	Overweight

Al-Hassan G.I. Shaker Co.

Q4: Disappointing operating performance

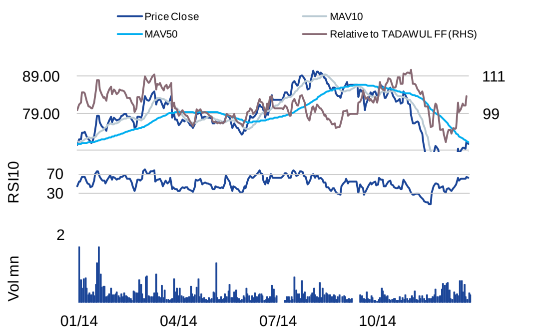
Shaker reported Q4 2014 net income of SAR8.5mn (vs. a loss of SAR31 for Q4 2013) missing our estimate of SAR16.9mn. However, adjusting for a one-time provisioning of SAR11.5mn, net profit surpassed our estimates, which we believe was on the back of healthier-than-expected performance by the company's affiliate – LG Shaker. The Q4 operating profit (adjusted) of SAR9.1mn (vs. operating loss of SAR33mn in Q4 2013) fell short of our forecast of SAR13.6mn. The stock declined by over 3% post the announcement of earnings. We will revise our estimates once the detailed financials are published. For now, we reiterate our Overweight rating on the company with a target price of SAR91.

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Earnings vs. our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

Performance



Source: Bloomberg

- **Revenues:** Shaker is yet to report Q4 revenues. With gross profit largely in line with our expectations, we anticipate the top-line number to come close to our forecast of SAR363.4mn.
- **Gross and operating profit:** Shaker reported gross profit of SAR81mn (up 2.1x y-o-y), coming close to our SAR85.7mn estimate. The sharp rise in gross profit for Q4 2014 was due to a low-base effect, since the company had made a provision of SAR50mn in Q4 2013 to upgrade stock to new energy efficiency standards, and restatement of Q4 2013 profit numbers on account of the stake sale. Despite the at-par gross profit, Shaker reported operating loss of SAR2.4mn vs. our estimate of SAR13.6mn profit. Operating loss was primarily on account of provisioning of SAR11.5mn, allocated for upgrading old air-conditioners to new standards. Adjusting for this, the company's operating profit stood at SAR9.1mn, lower than our SAR13.6mn estimate. The miss was on account of a 35% (y-o-y) jump in transportation and marketing expenses along with higher general & administrative expenses, which climbed 48% y-o-y.
- **Net profit:** Despite lower-than-expected operating income (adjusted), a stronger-than-anticipated performance by the company's affiliate – LG Shaker – helped Shaker post a stronger-than-expected net income (adjusted) compared to our SAR16.9mn estimate.

Earnings

Period End (SAR)	**12/13A**	**12/14E**	**12/15E**	**12/16E**
Revenue (mn)	1,741	1,601	1,775	1,961
Revenue Growth	0.2%	-8.0%	10.9%	10.5%
EBITDA (mn)	226	168	149	187
EBITDA Growth	-15.3%	-25.9%	-11.2%	25.8%
EPS	3.57	13.24	4.23	5.38
EPS Growth	-33.4%	270.5%	-68.0%	27.2%

Source: Company data, Al Rajhi Capital

Valuation

P/E (x)

Source: Company data, Al Rajhi Capital

Figure 1 Shaker: Summary of Q4 2014 results

SAR (mn)	Q4 2013	Q3 2014	Q4 2014	y-o-y change	q-o-q change	ARC est
Revenues	319.4	408.0	NA	-	-	363.4
Gross profit	26.5	110.8	81.0	205.3%	-26.9%	85.7
Gross margin	8.3%	27.2%	-			23.6%
Operating Profit	(33.0)	39.4	(2.4)	NM	NM	13.6
Net Income	(31.0)	43.8	8.5	NM	-80.5%	16.9

Source: Company data, Al Rajhi Capital

Conclusion: Despite a strong demand for air-conditioners across the Kingdom, Shaker is facing some short term issues to upgrade its old stock to newly set energy efficiency requirements and sell it off. Further, an ongoing rise in freight, selling, marketing and administrative costs are weighing on Shaker's bottom-line performance. However, we believe this to be a near-term drag and expect Shaker's performance to improve once the new air-conditioners (that meet new standards) hit the shelves. Further, a revival in construction activities will boost air-conditioner sales. We reiterate our Overweight rating on the company and maintain our target price at SAR91 per share.

Major developments

Pays dividend for 9M 2014

Shaker distributed a dividend of SAR2.5 a share (25% of the face value) for 9M 2014. The company generally pays dividends on an annual basis after completion of nine months of a financial year. However, for FY2013, the company paid SAR2.5 in January 2014.

Increases holding in Energy Management Services Co.

Shaker recently announced that it has acquired a further 54% stake in Energy Management Services Co. (EMS) by paying ~SAR1.5mn. With this, Shaker's holding in EMS has risen to 74%. Shaker is focusing on increasing its presence in the energy services field due to the new regulations related to energy savings in the air-conditioning and lighting industry.

Disclaimer and additional disclosures for Equity Research

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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": **Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.**

"Neutral": **We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 6-9 month time horizon.**

"Underweight**": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.**

2. Definitions

"Time horizon": **Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.**

"Fair value": **We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.**

"Target price": **This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.**

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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