

SHAKER



EVENT FLASH

In-line set of results; Higher Opex impacts margins

Shaker reported an in-line 3Q15 net income increasing by 5.6% YoY to SR46.2mn. SG&A came in-line with our estimates, despite weaker than expected sales which led to a significant decline in EBIT margin. However, higher income from associates offset the weakness on the EBIT level. We believe this was driven by higher income from LG Shaker.

- **NCBC view on results:** Shaker reported an in-line set of 3Q15 results with net income up 5.6% YoY to SR46.2mn. Although absolute SG&A expenses were in-line with our estimates (SR88.2mn vs. estimated SR85.9mn), the high variance on the operating income level came from a lower revenue base.
- **Sales growth momentum slows down:** Shaker revenues grew 8.4% YoY to SR442.3mn, 7.4% below our estimates. We believe this is due to a slowdown in demand growth for 3* and 4*, given these AC's were first introduced in 3Q14. Provided average sales growth over the previous four quarters stood at 20.8% YoY; slow growth rate is concerning.
- **Higher Opex on lower revenue base impacts margins:** Gross profit grew 4.5% YoY to SR115.8, 8.5% lower than our estimates. We believe this is a result of a higher growth in COGS (+9.9% YoY), which reduced gross margin by 98bps YoY. The decline in margin implies potential discounts offered to drive sales growth. A significant increase in Opex (Opex to sales stood at 19.9% vs. 17.5% in 3Q14) led to EBIT declining by 29.9% YoY to SR27.6mn. Although the absolute Opex figure is in-line with our estimates, a lower revenue base magnifies the impact on EBIT. The reduced EBIT margin by 341bps to 6.2%.
- **Strong LG Shaker performance offset EBIT decline:** Higher associate income (SR11.9mn in 3Q15E vs. SR7.9mn in 3Q14) from a strong LG Shaker performance led to an improvement in the net profit level. Net income increased by 5.6% YoY to SR46.2mn and came in-line with our estimates.
- We remain Overweight on Shaker with a PT of SR48.4. We believe Shaker's strong retail base, market leadership and underlying fundamentals are key positives. The stock currently trades at an attractive 2016E P/E of 12.2x.

3Q15 Results Summary

SR mn	3Q15A	3Q14A	% YoY	3Q15E	% Var^
Sales	442.3	408.0	8.4	477.4	(7.4)
Gross income	115.8	110.8	4.5	126.5	(8.5)
Operating income	27.6	39.4	(29.9)	40.6	(32.0)
Net income	46.2	43.8	5.6	46.6	(0.7)
EPS	0.73	0.69	5.6	0.74	(0.7)

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

OVERWEIGHT

Target price	48.4
Current price (SR)	36.8

STOCK DETAILS

M52-week range H/L (SR)	48/29
Market cap (\$mn)	619
Shares outstanding (mn)	63
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	15.7	(11.8)	(18.6)
Rel. to market	9.9	5.1	1.7

Avg daily turnover (mn)	SR	US\$
3M	18.0	4.8
12M	22.4	6.0

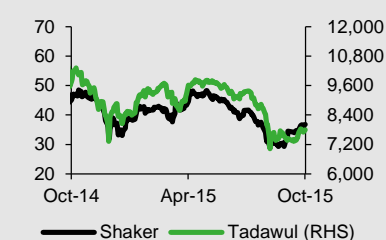
Reuters code	1214.SE
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VALUATION MULTIPLES

	14A	15E	16E
P/E (x)	5.3	14.1	12.2
P/B (x)	2.5	2.5	2.4
EV/EBITDA (x)	23.8	21.9	17.7
Div Yield (%)	6.8	6.8	6.8

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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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

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