

SHAKER

الأهلي كابيتال
NCB Capital

EVENT FLASH

Higher margins and associate income support results

Shaker's net income increased 4.6% YoY to SR27.4mn, in-line with the NCBC estimates of SR26mn. We believe the growth is attributed to 1) margin expansion from lower commodity prices, 2) higher share of sales coming from the higher margin non-LG product, 3) higher income from associates (LG Shaker) and 4) lower financing charges. These factors negated the 7.3% YoY decline in revenues and increased Opex. The stock is currently trading at a 2016P/E of 9.4x.

- Shaker reported 4.6% YoY growth in net income to SR27.4mn in 1Q16, in-line with NCBC and consensus estimates of SR26mn. Sales declined 7.3% YoY, reflecting the impact of the decline in discretionary spending. However, this was negated by higher gross margins, higher than expected associate income (LG Shaker) and lower financing costs.
- Shaker reported a 7.3% YoY decline in sales to SR395mn vs. our estimates of SR439mn. We believe sales have been impacted by lower demand for 3* and 4* ACs due to 1) lower discretionary spending similar to other retail names, 2) the impact of the 2-month bonus on 1Q15 and 3) relative slowdown in construction activity.
- Despite the weaker than expected revenues, gross profit came in-line with our estimates at SR99mn. We believe this is mainly attributed to the 190 bps expansion in gross margins to reach 25%. This improvement may be attributed to lower copper price (down 14.7% YoY in 1Q16). Moreover, a higher share of total sales coming from the higher margin non-LG product sales (23% in 1Q16 vs. 20% in 1Q15) supported margins. Non-LG products have gross margins of 32% vs. 23% for LG products.
- EBIT declined by 11.1% YoY to SR21.8mn as Opex increased to SR76.9mn in 1Q16 vs. SR73.8mn in 1Q15 and our estimate of SR75.3mn.
- However, associate income from LG Shaker came in higher YoY at SR13.6mn from SR8.8mn in 1Q15. This compares to our estimates of SR8.8mn. This, along with lower financing charges, reversed the YoY decline in EBIT and led to a growth of 4.6% in net income to SR27.4mn. As a result, net margin increased 79bps to 6.9% from 6.1% in 1Q15.
- We remain Overweight on Shaker with a PT of SR40.1. Strong retail base and market presence are Shaker key strengths. However, the weakness in construction activities and discretionary spending may continue to impact demand for ACs. The stock currently trades at an attractive 2016P/E of 9.4x.

1Q16 Results Summary

SR mn	1Q16A	1Q15A	% YoY	1Q16E	% Var^
Sales	395	426	(7.3)	439	(10.0)
Gross income	98.7	98.3	0.3	101.0	(2.3)
Operating income	21.8	24.5	(11.1)	25.7	(15.2)
Net income	27.4	26.2	4.6	26.4	3.8
EPS (SR)	0.43	0.42	4.6	0.42	3.8

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

Please refer to the last page for important disclaimer

OVERWEIGHT

Target price (SR) 40.1

Current price (SR) 24.0

STOCK DETAILS

M52-week range H/L (SR)	48/18
Market cap (\$mn)	403
Shares outstanding (mn)	63
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(1.8)	19.4	(47.6)
Rel. to market	(2.3)	0.1	(15.5)

Avg. daily turnover (mn)	SR	US\$
3M	10.6	2.8
12M	19.4	5.2

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

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	11.1	9.4	8.4
P/B (x)	1.4	1.3	1.2
EV/EBITDA (x)	20.8	15.8	13.0
Div Yield (%)	0.0	4.2	4.2

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

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

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