

## SHAKER



## EVENT FLASH

## Weak sales and margins lead to losses

Shaker reported a disappointing set of 1Q17 results, with a net loss of SR14.9mn vs net profit of SR28.0mn in 1Q16. This is lower than the NCBC estimate of a profit of SR16.1mn. We believe the deviation is due to 1) lower sales due to weak demand and increasing competition 2) higher Opex due to additional provisions and increasing marketing expenses.

- **NCBC view on the results:** Shaker reported a weak set of 1Q17 results, with net a loss of SR14.9mn vs a profit of SR28.0mn in 1Q16 and a loss of SR49.6mn in 4Q16. This compares with NCBC and consensus estimates of a profit of SR16.1mn and SR19.9mn, respectively. We believe the variance in earnings is attributed to 1) weaker than expected sales due to the lower spending power and overall construction slowdown, 2) additional provisions of SR5.1mn for its receivables 3) increased selling and distribution expenses due to promotional activities related to the launch of inverter AC's.
- Shaker reported a -26.0% YoY and -6.5% QoQ decline in sales to SR292mn, significantly lower than our estimates of SR375mn. We believe the YoY decline is mainly attributed to the demand weakness as a result of the allowance cuts and slowdown in the construction activities. Moreover, we believe competition from cheaper Chinese products further impacted sales.
- Gross margins contracted 202bps YoY to 23.0% vs. our estimates of 25.5%. We believe this is largely due to the shift in the product mix towards the low-margin AC segment from the high-margin home appliance segment. Home appliances have gross margins of 32% vs. LG AC products of 23%. As a result, gross profit declined 32.0% YoY to SR67.1mn, coming lower than our estimates of SR96mn. Despite the decline in revenue, Opex increased by +18.8% YoY due to increased promotional activities and provision of SR5.1mn on its receivables.
- Non-operating income increased 59.2% YoY to SR7.8mn vs our estimates of a loss of SR2.7mn. We believe this was mainly due to higher profits from LG Shaker of SR15.9mn vs. SR13.7mn in 1Q16 and our estimates of SR3.8mn.
- We are Overweight on Shaker with a PT of SR26.1. We believe the introduction of innovative (inverter AC's) as well as niche home appliance products (Kitchen Aid) are key positives and will enable it to maintain its market share. However, weakness in consumer spending and the construction sector is a cause of concern. Shaker is currently trading at a 2017E P/E of 14.7x.

## 1Q17 Results Summary

SR mn	1Q17A	1Q16A	% YoY	1Q17E	%Var <sup>^</sup>	% QoQ
Revenues	292.3	395.1	(26.0)	375.3	(22.1)	(6.5)
Gross income	67.1	98.7	(32.0)	95.7	(29.9)	(3.5)
Gross margin (%)	23.0%	25.0%	(2.02)	25.5%	(2.55)	0.72
EBIT	(22.7)	23.1**	NM	18.8	NM	NM
EBIT Margin (%)	(7.8)%	5.8%	NM	5.0%	NM	NM
Net income	(14.9)	28.0**	NM	16.1	NM	NM
Net Margin (%)	(5.1)%	7.1%	NM	4.3%	NM	NM
EPS (SR)	(0.24)	0.44	NM	0.26	NM	NM

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

## OVERWEIGHT

Target price (SR)	26.1
Current price (SR)	15.2
Upside/Downside (%)	71.3

## STOCK DETAILS

M52-week range H/L (SR)	27/12
Market cap (\$mn)	256
Shares outstanding (mn)	63
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(3.8)	(3.7)	(39.3)
Rel. to market	(1.8)	(2.9)	(42.7)

Avg. daily turnover (mn)	SR	US\$
3M	10.2	2.7
12M	14.3	3.8

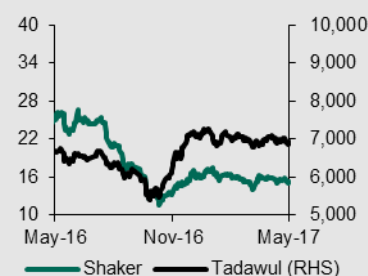
Reuters code	1214.SE
Bloomberg code	SHAKER AB
	<a href="http://www.shaker.com.sa">www.shaker.com.sa</a>

## VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	20.2	14.7	12.5
P/B (x)	0.9	0.9	0.9
EV/EBITDA (x)	26.6	21.6	18.4
Div Yield (%)	4.9	6.6	9.8

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**

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- CS:** Coverage Suspended. NCBC has suspended coverage of this company
- NC:** Not covered. NCBC does not cover this company

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