


US\$0.256bn

Market cap

36%

Free float

US\$2.732mn

Avg. daily volume

Target price

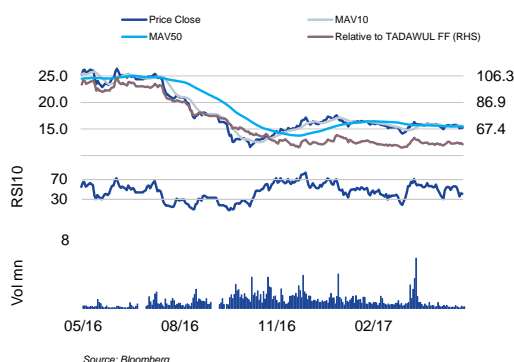
15.7

3.0% over current

Current price

15.2

as at 9/5/2017

Existing rating
Underweight
Neutral
Overweight
Performance

Earnings

Period End (SAR)	12/13A	12/14A	12/15A	12/16A
Revenue (mn)	1,741	1,556	1,887	1,643
Revenue Growth	0.2%	-10.6%	21.3%	-12.9%
EBITDA (mn)	226	123	108	64
EBITDA Growth		-45.6%	-12.2%	-41.0%
Net profit (mn)	125	76	137	48
Net profit growth		-39.0%	80.0%	-65.4%

Source: Company data, Al Rajhi Capital

Shaker

Q1 2017: Weighed down by weak demand

Shaker's Q1 2017 results were below our estimates –major factors being significant miss on revenue (reported at SAR292mn, down 26% y-o-y vs. our estimate of SAR355mn, down 10% y-o-y), lower than expected gross margin (reported at 23% vs. our estimate of 24%) and higher than anticipated SG&A expenses. We believe the revenue disappointment flows from weak consumer spending environment – Q1 2017 represents the first full quarter impact of cut in allowances for public sector employees – and significant drop in demand from projects. While we considered both the above in our estimates, the extent of revenue decline implies that demand for large ticket discretionary spending (ACs and other large white goods) is much softer than expectations. The demand for medium to low ticket discretionary consumption is holding up much better, as evidenced from revenue growth and LFL sales of Jarir, Extra and Fawaz Al Hokair. Going forward, we believe higher disposable income, led by reinstatement of allowances of public sector employees, may drive demand from consumers, but overall demand is still likely to be soft as government spending (key driver for demand from projects segment) may not witness a significant uptick. Further, expenses like higher trade discounts (to maintain market share) and higher advertising expenses (to launch inverter ACs) are likely to remain sticky for the next few quarters which will weigh on margin. Our revised TP stands at SAR15.7 per share (earlier SAR17.5) and implies 3% upside. Maintain Neutral rating.

- **Margin:** Higher SG&A expenses in Q1 (SAR18mn above our estimates) were due to: (a) provisions (SAR5.1mn for trade receivables), (b) likely higher trade discounts to stimulate sales, and (c) advertising campaign to launch new generation (dual inverter) of LG air conditioners.
- **Net profit:** Shaker reported net loss of SAR14.9mn against our expectation of SAR12.1mn profit. This is on the back of lower operating profit, which was impacted by lower revenue and higher SG&A expenses. Lower operating profit was partially negated by higher income from associate (LG Shaker). Share of income from LG Shaker stood at SAR15.9mn, much higher than our estimate of SAR5mn, likely due to higher production ahead of peak demand in Q2/ Q3 2017.
- **Valuation:** We use average of DCF and P/E based valuations to arrive at our target price on Shaker. Based on our revised estimates, our revised target price stands at SAR15.7 per share (earlier SAR17.5) and implies 3% upside. We remain Neutral on Shaker.

Figure 1 Shaker: Summary of Q1 2017 results

	Q1 2016	Q4 2016	Q4 2016	% Chg YoY	% Chg QoQ	ARC Est
Revenue	395.1	312.5	292.3	-26.0%	-6.5%	355.6
Gross Profit	98.7	69.5	67.1	-32.0%	-3.5%	85.2
Gross Profit margin	25.0%	22.2%	23.0%	na	na	24.0%
Operating Profit	21.8	(19.6)	(22.7)	na	na	14.1
Net Profit	27.4	(29.9)	(14.9)	na	na	12.1

Source: Company data, Al Rajhi Capital



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"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 12 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 12 month time horizon.

"Target price": We estimate target 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.

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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