

SHAKER



EVENT FLASH

Weak sales and associate losses impact earnings

Shaker reported a better than expected set of 1Q18 results with a loss of SR20.6mn in 1Q18 vs a loss of SR14.9mn in 1Q17. This compares with NCBC estimates of a loss of SR25.3mn. This is the sixth consecutive quarterly net loss. We believe the YoY increase in losses is mainly due to lower sales (-25.5% YoY) and losses from LG Shaker, which was partially offset by the strong expansion in gross margins (+417bps YoY) and lower Opex (-26.8% YoY).

- **NCBC View on Results:** Shaker reported a better than expected set of 1Q18 results, with a net loss of SR20.6mn vs a loss of SR14.9mn in 1Q17. This is the sixth consecutive quarterly net loss and compares with the NCBC estimates of a loss of SR25.3mn. We believe the YoY increase in losses is mainly due to the -25.5% YoY decline in sales and losses from LG Shaker.
- Shaker reported -25.5% YoY decline in sales to SR214.8mn. This is the lowest 1Q revenue since 2009. This is in-line with our estimates of SR219.2mn. We believe the YoY decline in revenue is mainly due to the overall muted construction outlook as well as high competition, especially from the lower priced Chinese products.
- Gross margins expanded 417bps YoY to 24.6% - the highest quarterly net margin since 2Q16. This is higher than our estimates of 20.0%, which we believe is mainly due to shift in the product mix towards the higher margin home appliances segment from the low-margin AC segment. Home appliances have gross margins of 32% vs. LG AC products of 23%.
- Opex declined -26.8% YoY to SR59.6mn, coming lower than our estimates of SR71.8mn. However, adjusting for the provisions of SR5.1mn in 1Q17 for doubtful debt, Opex declined -21.9% YoY. Opex as a % of sales increased to 27.8% in 1Q18 vs 26.5% in 1Q17.
- We believe Shaker reported a loss of SR0.3mn from its associate LG Shaker vs. a profit of SR16.0mn in 1Q17 and our estimates of a profit of SR11.0mn. Shaker has been reducing its purchases from LG Shaker as a result of the muted sales outlook, in order to reduce the piling up of inventory.
- We reiterated our Neutral rating on Shaker in our April 2018 update, with a revised PT of SR11.1. We believe the consecutive quarterly losses due to the ongoing weakness in construction activities and losses from LG Shaker are a cause of concern, while expanding margins and lower Opex are positives.

1Q18 Results Summary

SR mn	1Q18A	1Q17A	% YoY	1Q18E	%Var [^]	% QoQ
Revenues	214.8	288.3**	(25.5)%	219.2	(2.0)%	3.5%
Gross income	52.8	58.8**	(10.3)%	43.8	20.3%	891.5%
Gross margin (%)	24.6%	20.4%	417bps	20.0%	457bps	2,200bps
EBIT	(6.9)	(22.7)	NM	(28.0)	NM	NM
EBIT Margin (%)	(3.2)%	(7.9)%	NM	(12.8)%	NM	NM
Net income	(20.6)	(14.9)	NM	(25.3)	NM	NM
Net Margin (%)	(9.6)%	(5.2)%	NM	(11.5)%	NM	NM
EPS (SR)	(0.33)	(0.24)	NM	(0.40)	NM	NM

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

NEUTRAL

Target price	11.1
Current price (SR)	10.6
Upside/Downside (%)	4.6

STOCK DETAILS

M52-week range H/L (SR)	15/10
Market cap (\$mn)	178
Shares outstanding (mn)	63
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(1.7)	(3.2)	(29.8)
Rel. to market	(3.7)	(12.6)	(48.2)

Avg daily turnover (mn)	SR	US\$
3M	7.8	2.1
12M	5.2	1.4

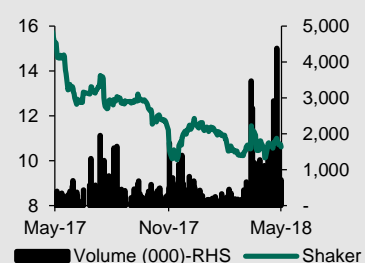
Reuters code	1214.SE
Bloomberg code	SHAKER AB
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VALUATION MULTIPLES

	17A	18E	19E
P/E (x)	NM	NM	NM
P/B (x)	0.8	0.9	0.9
EV/EBITDA (x)	NM	NM	NM
Div Yield (%)	0.0	0.0	0.0

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

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

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