

## SHAKER



## EVENT FLASH

## Losses increase on weak sales, associate losses

Shaker reported a disappointing set of 4Q16 results with net losses increasing to SR29.9mn vs. SR17.8mn in 4Q15. This compares to the NCBC estimate of losses of SR21.9mn. We believe the deviation in earnings is largely due to declining sales from the overall economic slowdown. This was further impacted by the increased losses from LG Shaker and higher financing charges.

- **NCBC view on the results:** Shaker reported a weak set of 4Q16 results, with net losses increasing to SR29.9mn vs. SR17.8mn in 4Q15. This compares with NCBC and consensus estimates of a loss of SR21.9mn and SR9.5mn, respectively. We believe the variance in earnings is mainly attributed to 1) weaker than expected sales due to the lower spending power and construction slowdown and 2) higher losses from LG Shaker.
- Shaker reported a 16.6% YoY decline in sales to SR313mn. This is lower than our estimates of SR338mn. We believe the YoY decline is mainly due to weaker demand, from the overall lower spending appetite and impact of the allowance cuts. Moreover, we believe competition from cheaper Chinese products further weighed on sales.
- Gross margins expanded 623bps YoY to 22.2% vs. our estimates of 21.5%. We believe this is due to a shift in the product mix to the high-margin home appliances segment from the low-margin AC segment. Home appliances have gross margins of 32% vs. LG AC products of 23%. As a result gross profit increased 15.8% YoY to SR69.5mn, coming lower than our estimates of SR72.7mn. Despite the decline in revenue, Opex increased by 8.3% YoY leading to EBIT losses of SR19.6mn from a loss of SR22.2mn in 4Q15.
- LG Shaker continued to report a loss, with Shaker's share of the loss being SR4.9mn in 4Q16 vs. a profit of SR1.4mn in 4Q15 and our estimates of SR1.5mn losses. Shaker has been reducing its purchases from LG Shaker to reduce the piling up inventory from weakening sales. This along with increased financing expenses of SR8.5mn from SR2.2mn in 4Q15, due to the increase in SAIBOR led to the decline in net income.
- We are Overweight on Shaker with a PT of SR26.1. We believe increasing sales of home appliances and product innovations are key positives. However, weakness in consumer spending and losses from associates remain key concerns. Shaker is currently trading at a 2017E P/E of 11.3x.

## 4Q16 Results Summary

SR mn	4Q16A	4Q15A	% YoY	4Q16E	% Var <sup>^</sup>
Sales	312.5	374.7	(16.6)%	337.8	(7.5)%
Gross income	69.5	60.0**	15.8%	72.7	(4.4)%
Gross margin (%)	22.2%	16.0%	6.23%	21.5%	0.72%
Operating income	(19.6)	(22.2)**	(12.1)%	(13.4)	45.8%
Operating margin (%)	(6.3)%	(5.9)%	(0.32)%	(4.0)%	(2.29)%
Net income	(29.9)	(17.8)	67.6%	(21.9)	36.6%
Net margin (%)	(9.6)%	(4.8)%	(4.81)%	(6.5)%	(3.09)%
EPS	(0.47)	(0.28)	67.6%	(0.35)	36.6%

Source: Company, NCBC Research <sup>^</sup> % Var indicates variance from NCBC estimates; \*\*Restated

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## OVERWEIGHT

Target price (SR) 26.1

Current price (SR) 16.0

## STOCK DETAILS

M52-week range H/L (SR)	27/12
Market cap (\$mn)	269
Shares outstanding (mn)	63
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(3.1)	38.0	(22.5)
Rel. to market	0.9	12.5	(46.5)

Avg. daily turnover (mn)	SR	US\$
3M	21.0	5.6
12M	14.4	3.8

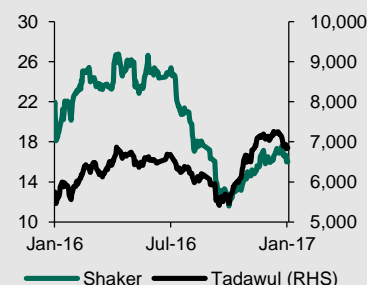
Reuters code	1214.SE
Bloomberg code	SHAKER AB
	<a href="http://www.shaker.com.sa">www.shaker.com.sa</a>

## VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	7.4	11.3	15.4
P/B (x)	1.0	0.9	0.9
EV/EBITDA (x)	16.0	17.5	22.3
Div Yield (%)	0.0	6.3	6.3

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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- 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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