Q3 22A Result Review

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Al-Hassan Ghazi Ibrahim Shaker Co.

EPS disappoint (-29% y/y, -30% vs. street) on weak sales and margins.

- **Q3 sales disappoint (-0.9% y/y, -18% q/q), missing estimates (-12%/-8% vs. BBG/ACe) on weak HA segment amid consumer wallet shift / inflationary pressure.**
- **GPm positively surprises at 22.4% (+136bps vs. ACe, +40bps y/y) on improved direct cost control. GP recovers 0.9% y/y to SAR 58m, narrowing miss vs. our estimates at -2.1%.**
- **Net profit plummeted by 29% y/y (-27% q/q), significantly missing street (-30%/-17% vs. BBG/ACe), on i) weak topline base and ii) higher OpEx pressure and higher zakat/tax expense.**
- **Valuation multiples remain expensive at FY22/23e P/E of 19x/15.3x (>30% premium to global peers). Q3 miss poses downside risks to our estimates amid challenging consumer dynamics / inflation.**

Revenues disappoint (-0.9% y/y, -18% q/q), missing estimates (-12%/-8% vs. BBG/ACe): Q3 revenues arrived flat at SAR 258m (-0.9% y/y, -18.3% q/q), missing estimates (-12%/-8% vs. BBG/ACe). As per the management, the weakness arrives on 32% y/y lower home appliance (HA) sales due to a slowdown in consumer activity amid i) inflationary pressure and ii) wallet shift / outward travels (as evident from Q3 electronics POS -6% y/y). This was partially supported by 25% y/y higher HVAC solution / service revenues via new mega project wins and increased B2B activity. We expect weakness to persist in Q4 due to i) World Cup event (spending tilt towards smart TV vs. HA / AC), and ii) weak consumer sentiments.

Gross margins positively surprise on inventory control, but higher OpEx drags EPS 29% y/y, missing street: GP at SAR 58m registers muted recovery (+0.9% y/y, -12% q/q), narrowing miss vs. our estimates to -2.1%. This arrives on 40bps y/y expansion in GPm (+136bps vs. ACe), which the management owes to better inventory management and improved direct cost controls. Net income falls 29% y/y (-26.5% q/q), massively missing estimates (-30%/-17% vs. BBG/ACe), further dragged by i) 4.7% y/y higher OpEx (SG&A/sales +97bps y/y, +150 bps vs. ACe), and ii) higher zakat/tax expense and credit impairment losses.

Valuation multiples remain stretched, with downside risk to our estimates after the much weaker-than-expected net margins in Q3: Shaker currently trades at 19/15.3x P/E 22/23e, at a >50% and 10% premium to global peers and regional discretionary retailers, respectively. Premium valuation is warranted on above-average growth profile (FY21-26 EPS CAGR >30% vs. 10% global peers) amid expansion / giga projects. However, Q3 miss poses downside risks to our FY22/23e estimates. Our estimates and TP are under downward review.

BUY **SAR 27**

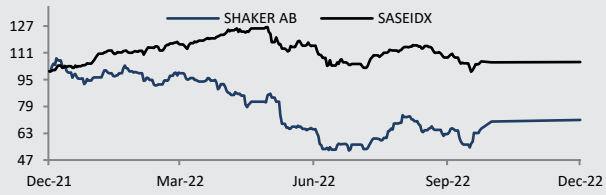
Consumer discretionary / Saudi Arabia

Bloomberg code	SHAKER AB
Market index	SASEIDX
Target Price	26.6
Upside (%)	24.7

Market data	**11/7/2022**
Last closing price	21.3
52 Week range	15.9-33.2
Market cap (SAR m)	1,029
Market cap (USD m)	274
Average Daily Traded Value (SAR m)	15.0
Average Daily Traded Value (USD m)	3.9
Free float (%)	82%

Year-end (local m)	2021	2022e	2023e	2024e
Revenues	1,086.4	1,177.8	1,292.5	1,385.4
EBITDA	53.0	69.7	93.9	105.4
Net income	27.4	46.0	74.4	87.4
EPS	0.58	0.98	1.58	1.86
P/E (current price)	20.35x	19.01x	15.28x	13.71x
P/B (current price)	10.80x	9.83x	8.72x	8.10x
EV/EBITDA (CMP)	32.2	24.5	18.2	16.2
Div. yield (%)	5.51%	3.62%	3.90%	4.96%
FCF yield (%)	10.12%	7.33%	12.06%	12.92%
Net debt/EBITDA (x)	0.3	0.4	0.0	(0.2)
Net debt/Capital (%)	0.16	0.16	0.01	-0.11
Interest cover (x)	2.0	2.4	3.3	3.7
RoAA (%)	27.3%	21.7%	24.4%	25.4%
RoAE (%)	58.9%	50.9%	53.7%	54.2%
RoIC (%)	60.6%	51.2%	53.9%	54.5%

Price Performance



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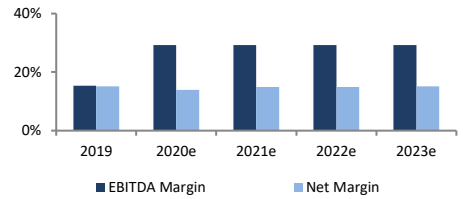
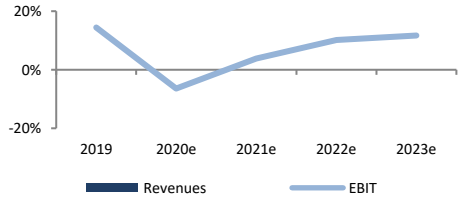
Abacus *Arqaam Capital Fundamental Data*

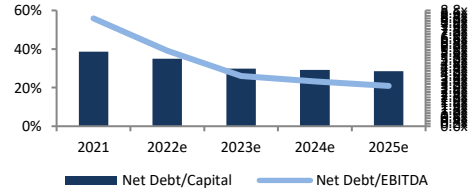
Profitability



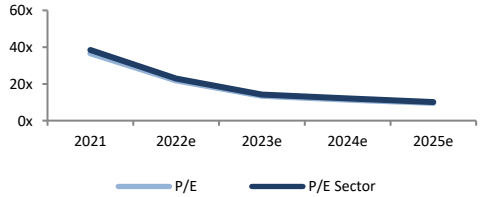
Growth



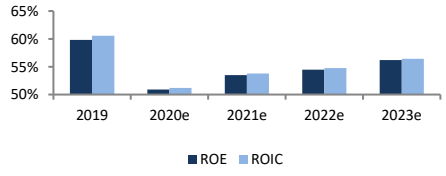
Gearing



Valuation



Return



Al-Hassan Ghazi Ibrahim Shaker Company

Year-end	2020	2021	2022e	2023e	2024e	2025e
Financial summary						
Reported EPS	0.15	0.57	0.96	1.55	1.82	2.17
Diluted EPS	0.15	0.57	0.96	1.55	1.82	2.17
DPS	-	-	-	-	0.82	1.08
BVPS	14	15	17	18	14	15
Weighted average shares	48.00	48.00	48.00	48.00	48.00	48.00
Average market cap	1,023.36	1,023.36	1,023.36	1,023.36	1,023.36	1,023.36

Year-end	2020	2021	2022e	2023e	2024e	2025e
Valuation metrics						
P/E (x) (current price)	18.78x	18.99x	17.00x	13.81x	12.51x	11.45x
P/E (x) (target price)	21.3	20.7	25.4	22.1	19.7	17.1
P/BV (x) (target price)	2.1	2.0	1.9	1.7	1.6	1.5
EV/EBITDA (x)	22	20	23	21	19	16
EV/FCF (x)	(42.3)	(11.8)	21.9	18.5	19.3	16.6
EV/Invested capital (x)	1.4	1.2	1.2	1.1	1.1	1.0
Dividend yield (%)	5.01%	5.51%	3.62%	3.90%	4.96%	6.04%

Year-end	2020	2021	2022e	2023e	2024e	2025e
Growth (%)						
Revenues	6.0%	14.4%	8.8%	7.8%	7.2%	6.2%
EBITDA	9.7%	12.2%	2.3%	19.8%	9.6%	8.8%
EBIT	9.4%	11.8%	2.1%	20.7%	9.8%	9.0%
Net income	10.6%	2.5%	0.5%	21.7%	10.0%	9.3%

Year-end	2020	2021	2022e	2023e	2024e	2025e
Margins (%)						
EBITDA	13.2	12.9	12.2	13.5	13.8	14.1
EBIT	12.4	12.1	11.4	12.8	13.1	13.4
Net	13.0	11.7	10.8	12.2	12.5	12.9

Year-end	2020	2021	2022e	2023e	2024e	2025e
Returns (%)						
RoAA	31.52%	27.3%	21.7%	24.4%	25.4%	26.7%
RoAE	57.74%	58.9%	50.9%	53.7%	54.2%	55.9%
RoIC	56.40%	60.6%	51.2%	53.9%	54.5%	56.2%

Year-end	2020	2021	2022e	2023e	2024e	2025e
Gearing (%)						
Net debt/Capital	7.0%	15.7%	0.0%	(10.2%)	(15.3%)	(19.9%)
Net debt/Equity	8.18%	19.0%	0.0%	(12.0%)	(17.9%)	(23.3%)
Interest cover (x)	(0.1)	2.0	2.4	3.3	3.7	4.2
Net debt/EBITDA (x)	14.3%	28.7%	0.1%	(20.1%)	(29.9%)	(37.9%)

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Abacus *Arqaam Capital Fundamental Data*

Company profile

Established in 1950, followed by IPO in 2010, Shaker Group is one of the largest distributors of air conditioners (55% of revenues, MS 12.5% in total AC market) and home appliances (45% of revenues, MS 2.2% in total HA market) with a nationwide footprint through a strong network of exclusive sales outlets, service centers, warehousing facilities, training academies, and extensive network of distributors including the modern retailing channel through specialty retailers and hypermarkets. Some of the brands distributed by Shaker include LG, Midea, Maytag, Bissel, Bompani, Ariston, and Indesit. Shaker also has a 49% stake in the LG Manufacturing facility in the KSA. LG owns the remaining 51% of the factory.

Ownership

Shareholders	Ownership
Lafana Holding Company	12.21%
Arabian Tawazon for Commercial Investment	9.90%
Lama Holding Co.	5.71%
Public	72.18%

Source: Company Reports

Board of Directors	
Abdulelah Abdullah Abunayyan	Chairman
Mohammed Ibrahim Abunayyan	CEO
Mazen Elghafeer	CFO
Mussab Suleiman Al-Muhaidib	Board Member
Abdul Raouf Walid Albitar	Board Member
Eid Faleh Alshamri	Board Member
Rasheed Abdulrahman AlRasheed	Board Member
Hussam Ali Shobokshi	Board Member
Azzam Soud Almudaiheem	Board Member

Source: Company Reports

Al-Hassan Ghazi Ibrahim Shaker Company

Year-end	2020	2021	2022e	2023e	2024e	2025e
Income statement (SAR mn)						
Sales revenue	932.7	1,086.4	1,177.8	1,292.5	1,385.4	1,473.7
Gross profit	**195.6**	**235.5**	**253.5**	**287.3**	**311.3**	**335.3**
SG&A	(198.0)	(200.7)	(200.7)	(209.6)	(221.7)	(232.0)
EBITDA	**18.3**	**53.0**	**69.7**	**93.9**	**105.4**	**118.7**
Depreciation & Amortisation	(20.7)	(18.2)	(16.8)	(16.2)	(15.8)	(15.4)
EBIT	**(2.4)**	**34.8**	**52.8**	**77.7**	**89.6**	**103.3**
Net interest income(expense)	(18.8)	(17.3)	(22.1)	(23.3)	(24.5)	(24.8)
Associates/affiliates	24.3	23.2	25.6	27.6	29.8	32.2
Exceptionals/extraordinaries	-	-	-	-	-	-
Other pre-tax income/(expense)	11.6	0.7	2.4	2.4	2.0	2.2
Profit before tax	**14.8**	**41.4**	**58.6**	**84.3**	**96.9**	**112.9**
Income tax expense	(6.7)	(13.4)	(11.7)	(8.4)	(7.7)	(6.8)
Minorities	(0.6)	(0.5)	(0.9)	(1.4)	(1.7)	(2.0)
Other post-tax income/(expense)	-	-	-	-	-	-
Net profit	**7.4**	**27.4**	**46.0**	**74.4**	**87.4**	**104.1**
Arqaam adjustments (including dilution)	-	-	-	-	-	-
Arqaam Net profit	**7.4**	**27.4**	**46.0**	**74.4**	**87.4**	**104.1**

Year-end	2020	2021	2022e	2023e	2024e	2025e
Balance sheet (SAR mn)						
Cash and other liquid assets	376.0	403.0	418.6	459.3	464.0	472.9
Receivables	352.2	412.6	425.9	449.7	478.2	508.7
Tangible fixed assets	212.9	197.3	189.9	184.7	180.7	177.8
Associates/investments	419.2	442.4	468.0	495.6	525.4	557.6
Other assets including goodwill	24.1	25.3	25.3	25.3	25.3	25.3
Total assets	**3,215**	**4,002**	**4,567**	**4,941**	**5,211**	**5,424**
Payables	1,021	1,039	1,278	1,311	1,352	1,406
Interest bearing debt	388.2	487.1	459.3	439.5	422.5	412.6
Other liabilities	56.3	41.0	41.0	41.0	41.0	41.0
Total liabilities	**1,515**	**2,356**	**2,626**	**2,698**	**2,770**	**2,838**
Shareholders equity	1,699	1,645	1,942	2,243	2,441	1,699
Minorities						
Total liabilities & shareholders equity	**3,215**	**4,002**	**4,567**	**4,941**	**5,211**	**5,424**

Year-end	2020	2021	2022e	2023e	2024e	2025e
Cash flow (SAR mn)						
Cashflow from operations	**755**	**1,046**	**1,213**	**1,380**	**1,516**	**1,683**
Net capex	(173)	(120)	(102)	(113)	(93)	(74)
Free cash flow	**568**	**900**	**1,085**	**1,236**	**1,389**	**1,572**
Equity raised/(bought back)						
Dividends paid	(890)	(978)	(563)	(693)	(881)	(1,073)
Net inc/(dec) in borrowings	274	(6)	(26)	12	33	42
Other investing/financing cash flows	-	-	-	-	-	-
Net cash flow	**(54)**	**(116)**	**337**	**278**	**197**	**194**
Change in working capital	(89.9)	(156.5)	5.0	(10.6)	(25.2)	(29.9)

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SHAKER AB Q3 22A preliminary results

Revenues: SAR 258m (-0.9% y/y, -18.3% q/q, -8.1% vs. AC)
Gross Profit: SAR 58m (+0.9% y/y, -12% q/q, -2.1% vs. AC)
EBIT: SAR 11m (-12.8% y/y, -22.9% q/q, -11.1% vs. AC)
Net Profit: SAR 9m (-29.2% y/y, -26.5% q/q, -16.6% vs. AC)

Exhibit 1: Shaker Q3 22A prelim numbers

SAR m	Q3 22A	ACe	Δ	BBG consensus	Δ	Q3 21A	y/y change	Q2 22A	q/q change
Revenues	258	280	*(8.1%)*	293	*(11.9%)*	260	*(0.9%)*	316	*(18.3%)*
Gross profit	58	59	*(2.1%)*	N/A	-	57	*0.9%*	66	*(12.0%)*
EBIT	11	12	*(11.1%)*	N/A	-	12	*(12.8%)*	14	*(22.9%)*
Net income	9	10	*(16.6%)*	12	*(29.6%)*	12	*(29.2%)*	12	*(26.5%)*
Gross margin	22.4%	21.0%	136 bps	N/A	-	22.0%	40 bps	20.8%	160 bps
EBIT margin	4.2%	4.3%	(14 bps)	N/A	-	4.7%	(57 bps)	4.4%	(25 bps)
Net margin	3.3%	3.6%	(34 bps)	4.1%	(83 bps)	4.6%	(132 bps)	3.7%	(37 bps)

Source: Company Data, Bloomberg, Arqaam Capital Research

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