Initiation Report

September 1 2022

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Al-Hassan Ghazi Ibrahim Shaker Co.

Direct play on increased localized production, energy efficiency and giga projects. We initiate with a Buy.

- **KSA market dynamics are inductive for Shaker growth because of i) ongoing recovery in expats (+11% y/y), ii) Vision 2030 targets (higher local content production/increased focus on energy efficiency), and iii) upcoming Giga projects (>SAR 3tr this decade), with award momentum set to accelerate.**
- **We forecast a 5-year EPS CAGR of 33% driven by i) M/S gains via new brand/product additions in home appliances (HA), ii) roll-out of margin accretive B2B and inverter HVAC sales, and iii) cost optimization initiatives and scale.**
- **B/S repair to accelerate on improved FCF generation (as WC cycle eases, reducing to <125 days vs. >250 historically). A potential SAR 249m rights issue could further reduce gross debt by at least SAR 100m (>20%), with remaining proceeds (SAR 149m) to be deployed for HA segment expansion after a successful turnaround.**
- **We initiate coverage with a Buy rating and set a TP of SAR 27, providing 34% upside despite a 58% premium to global peers (FY22/23e P/E 20.32x/12.56x).**

Shaker is a market leader in HVAC and home appliances in Saudi Arabia. Shaker is the 3rd largest distributor of air conditioning (HVAC) units in KSA (M/S of 12.5%) and home appliances (HA, 10th largest, M/S of 2.2%), operating >1k S&D points across the Kingdom. Shaker also owns 49% of an LG factory (JV with LG, SAR 400m BV, 40% of Mcap; 52% utilization). We see the business as well-positioned to capitalize on attractive MT/LT KSA growth prospects via i) favorable demographics (40% of the population under 25yrs, positive indicator for future addressable household count), ii) Vision 2030 growth targets including lower unemployment rate, higher minimum wages, shifting focus on non-oil economy (e.g., increased localization of production and focus on tourism), and associated mega projects (Neom, the Red Sea, Amaala, whereby Shaker is bidding for projects worth >SAR 1.2bn). Moreover, the government's increased focus on green energy (SEEC/Tarshid initiatives) adds an additional leg for growth, weeding out inefficient players; Shaker is a leader in the efficient inverter technology, offering a more extended compressor warranty (7 years vs. 5 years peers).

We see additional upside from the business transformation strategy: The transformation program launched in 2019 targets i) HVAC portfolio revamp, with a focus on margin accretive B2B sales (c.24% vs. 18% B2C) and after-sales services, ii) further expansion into higher-margin HA segment (GPm 23% vs. 20% HVAC) via new brand additions (Bompani) for M/S gains, and iii) scale efficiencies via an enhanced distribution network and supply chain/inventory management. The business turned profitable in FY20A after three consecutive years of losses as margins recovered (GPm +4ppts vs. FY17A) on an improved revenue mix via CAC (24.5% of total AC sales vs. 21% in FY17A) and HA (41.8% of group revenues vs. 32.2% in FY17A). We flag strong cost controls (SG&A/sales -8.4ppts vs. FY17).

We expect EPS to grow at a 5yr (FY21-26e) CAGR of 33% on portfolio expansion and economies of scale: We model for substantial i) 9.6% sales CAGR for HA on portfolio expansion (supported by rights proceeds), ii) roll-out of CAC and inverter sales (HVAC 5-yr CAGR 6.1%) and iii) margin expansion (GPm 22-23% vs. 21.7% FY21A, EBITDAm 7.5-8%% vs. 4.9% FY21) on an improved product-mix and increased economies of scale (>50% of OpEx costs are fixed).

FCFE profile to improve as leverage and working capital are tackled: FCFE generation was low with a negative FY20-21 FCFY of 3-10%. However, FCF should improve on i) operational growth, ii) improved supply chain/inventory management (WC days to reduce to <125 vs. >250 historically), and iii) lower leverage (FY22/23e net debt/EBITDA at 4.8-3.7x vs. >7x historically, 8.2x FY21).

We initiate with a Buy recommendation on an above-average growth profile: Shaker currently trades at 20.32/12.56x P/E 22/23e, at a 58% and 9% premium to global peers and regional discretionary retailers. This is justified given on superior MT/LT growth prospects (+33% FY 21-26e EPS CAGR vs. 10% global peers, c.12% local electronic retailers). We initiate the stock with a Buy and a TP of SAR 27 (+34% vs. CMP). Upside risk: further localization of production (Vision 2030), improved product mix, and economies of scale. Risks: inflationary cost pressure, higher interest rates, and competition.

BUY SAR 27

Consumer discretionary / Saudi Arabia

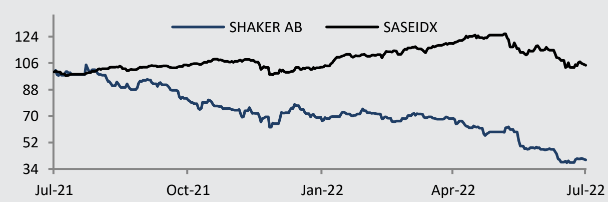
Bloomberg code	SHAKER AB
Market index	SASEIDX
Target Price	26.6
Upside (%)	34.0

Market data 8/31/2022

Last closing price	19.9
52 Week range	15.9-40.5
Market cap (SAR m)	958
Market cap (USD m)	255
Average Daily Traded Value (SAR m)	16.0
Average Daily Traded Value (USD m)	4.3
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)	34.1	20.32	12.56	10.70
BVPS	13.3	14.2	15.8	16.9
P/B (current price)	1.61	1.48	1.33	1.25
EV/EBITDA (current price)	32.3	24.5	18.2	16.2
Div. yield (%)	-	-	-	3.8
FCF yield (%)	(9.9)	5.0	5.3	4.8
Net debt/EBITDA (x)	8.2	5.7	3.8	3.4
Net debt/Capital (%)	38.6	35.0	29.8	29.1
Interest cover (x)	2.0	2.4	3.3	3.7
RoAA (%)	1.9	3.0	4.7	5.3
RoAE (%)	4.4	7.0	10.3	11.1
RoIC (%)	3.1	5.8	8.7	9.6

Price Performance



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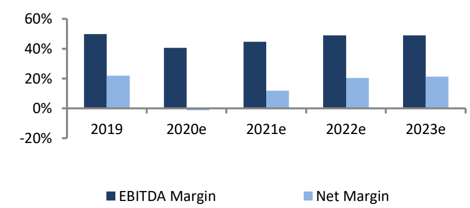
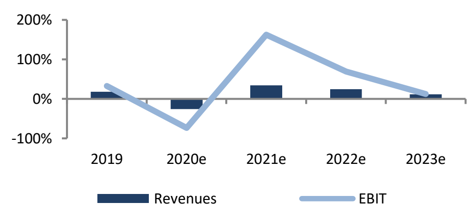
Abacus *Arqaam Capital Fundamental Data*

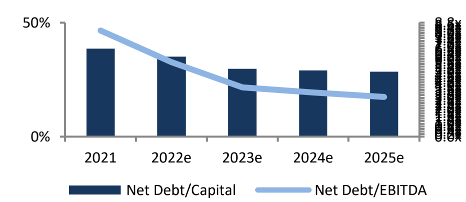
Profitability



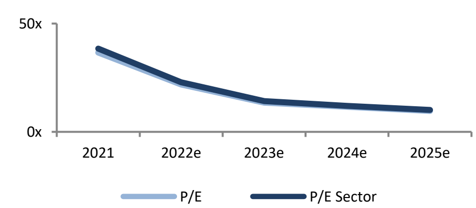
Growth



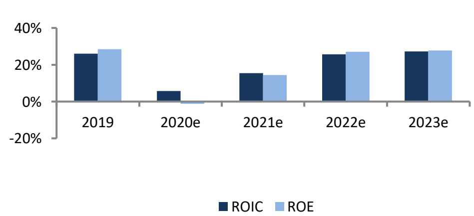
Gearing



Valuation



Return



Al-Hassan Ghazi Ibrahim Shaker Company

Year-end	2020	2021	2022e	2023e	2024e	2025e
Financial summary						
Reported EPS	0.15	0.58	0.98	1.58	1.86	2.17
Diluted EPS	0.15	0.58	0.98	1.58	1.86	2.17
DPS	-	-	-	-	0.82	1.08
BVPS	12.68	13.3	14.2	15.8	16.9	17.98
Weighted average shares	48	48	48	48	48	48
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)	137.8	34.1	20.32	12.56	10.70	9.8
P/E (x) (target price)	2.1	2.0	1.9	1.7	1.6	1.5
P/BV (x) (target price)						
EV/EBITDA (x)	93.1	32.2	24.5	18.2	16.2	14.4
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 (%)	-	-	-	-	3.8	5.1

Year-end	2020	2021	2022e	2023e	2024e	2025e
Growth (%)						
Revenues	5.6	16.5	8.4	9.7	7.2	6.4
EBITDA	(183.4)	189.4	31.5	34.8	12.3	12.6
EBIT	(94.6)	(1,541.4)	51.8	47.1	15.4	15.2
Net income	(114.6)	269.3	67.8	61.7	17.4	19.1

Year-end	2020	2021	2022e	2023e	2024e	2025e
Margins (%)						
EBITDA	2.0	4.9	6.9	7.3	7.6	8.1
EBIT	(0.3)	3.2	4.5	6.0	6.5	7.0
Net	0.8	2.5	3.9	5.8	6.3	7.1

Year-end	2020	2021	2022e	2023e	2024e	2025e
Returns (%)						
RoAA	0.5	1.9	3.0	4.7	5.3	6.1
RoAE	1.2	4.4	7.0	10.3	11.1	12.5
RoIC	0.3	3.1	5.8	8.7	9.6	10.7
FCF yield	(3.2)	(9.9)	5.0	5.3	4.8	5.2

Year-end	2020	2021	2022e	2023e	2024e	2025e
Gearing (%)						
Net debt/Capital	30.9	38.6	35.0	29.8	29.1	28.5
Net debt/Equity	50.7	68.2	58.6	47.1	44.3	42.1
Interest cover (x)	(0.1)	2.0	2.4	3.3	3.7	4.2
Net debt/EBITDA (x)	16.8	8.2	5.7	3.8	3.4	3.1

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	79.9	53.0	69.3	91.8	73.7	58.6
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	**1,395.6**	**1,489.1**	**1,536.2**	**1,623.1**	**1,682.1**	**1,750.8**
Payables	56.3	41.0	41.0	41.0	41.0	41.0
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	787.1	852.5	866.9	863.7	873.0	887.6
Shareholders equity	608.5	636.6	693.5	769.4	819.1	873.2
Minorities	6.0	7.0	8.0	9.0	10.0	11.0
Total liabilities & shareholders equity	**1,395.6**	**1,489.1**	**1,536.2**	**1,623.0**	**1,682.1**	**1,750.8**

Year-end	2020	2021	2022e	2023e	2024e	2025e
Cash flow (SAR mn)						
Cashflow from operations	**(28.3)**	**(105.2)**	**67.8**	**80.0**	**78.0**	**89.6**
Net capex	(2)	(2.7)	(9.6)	(11.0)	(11.8)	(12.5)
Free cash flow	**(30)**	**(107.8)**	**59.8**	**77.3**	**66.2**	**77.1**
Equity raised/(bought back)	-	-	-	-	-	-
Dividends paid	-	-	-	-	(39.3)	(52.1)
Net inc/(dec) in borrowings	10	102.6	(19.0)	(28.7)	(16.9)	(9.9)
Other investing/financing cash flows	(18)	(16.8)	-	-	-	-
Net cash flow	**(1)**	**(26.9)**	**16.3**	**22.5**	**21.2**	**(15.1)**
Change in working capital	(90)	(156.5)	(3.3)	(2.4)	(25.2)	(29.9)

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We initiate coverage on Shaker with Buy recommendation and SAR 27 TP

- **We initiate coverage on Shaker with a Buy recommendation and a DCF-based TP of SAR 27 TP (+26% vs. CMP), driven by 7.5% WACC and 3% Terminal Growth rate.**
- **We factor in 33% 5-yr EPS CAGR (on a low FY21 base) supported by: i) strengthening AC segment (growing inverter and CAC sales), ii) market share gains, specifically in HA segment (on expanding brand/product portfolio), and iii) LT market growth underpinned by KSA's favorable demographics & upcoming mega projects.**
- **Expanding market presence (via new product additions) is the main value driver where Shaker aims to become one of the top 3 distributors in the home appliances market. Shaker remains the 3rd largest player in total AC market (LG; M/S 12.5%) and the 10th largest distributor in the total HA market (M/S 2.2%).**
- **The company trades at 20.3x/12.6x P/E FY 22/23e, a 50%/9% premium to global peers and regional retailers, respectively, pricing in the strong growth trajectory. Our TP implies FY 22/23e P/E of 27.2x/16.8x.**

Exhibit 1: Shaker – DCF Summary

SARm	2022e	2023e	2024e	2025e	2026e	2027e
EBITDA	**70**	**94**	**105**	**119**	**127**	**142**
(-) WC	7	(0)	(23)	(28)	(20)	(21)
(-) CapEx	(9)	(11)	(12)	(13)	(13)	(14)
(-) Tax	(12)	(8)	(8)	(7)	(7)	(9)
FCFF	**56**	**74**	**63**	**72**	**86**	**98**
Stub period FCF	56	74	63	72	86	98
Discount factor	0.98	0.91	0.84	0.78	0.73	0.68
PV FCFF	**19**	**74**	**63**	**72**	**86**	**98**
Terminal value						2,234
PV of TV						**1,516**

PV FCFF	187	**WACC Parameters**	
PV TV	1,516	Risk Free Rate	2.5%
EV	**1,704**	Equity Market Risk Premium	7.0%
Borrowings	489	Adjusted Beta	0.98
Cash	62	**Cost of Equity**	**9.4%**
Investment in associates	-	Cost of Debt	4.8%
EqVal	**1,277**	Marginal Tax Rate	6.0%
NOSH	48	**Cost of Debt**	**4.8%**
EqValpS	**27**	Target Debt	40.0%
		Target Equity	60.0%
		WACC	**7.5%**
		Perpetuity Growth	**3.0%**

	2022e	2023e	2024e	2025e	2026e	2027e
Implied PE (x)	27.22	16.83	14.33	12.03	10.88	9.40

Source: Company Data, Arqaam Capital Research

Exhibit 2: Shaker trades 58%/9% premium to global peers and regional peers, respectively on FY22e PE, and trades at 1%/30% discount, respectively on FY23e PE.

Companies	Market cap (USDm)	ADTV (USDm)	FY 22e D/Y (%)	FY 22e P/E (x)	FY 23e P/E (x)	FY 22e EV/EBITDA (x)	FY 23e EV/EBITDA (x)	RoE (%)	RoIC (%)	NPm (%)
Global Electronics peers										
WATSCO INC	10,961	72.74	3.3	19.1	20.5	13.6	14.8	28.0	31.2	6.7%
TEQNION AB	186	0.17	N/A	N/A	N/A	N/A	N/A	31.7	26.5	8.6%
ALLIGO AB-B	473	0.17	N/A	10.0	8.9	6.7	5.4	125.9	8.7	5.1%
DXP ENTERPRISES INC	503	2.55	N/A	11.2	10.0	8.0	7.5	9.6	8.7	1.5%
SOLAR A/S-B SHS	604	1.12	N/A	6.7	8.6	4.9	5.8	36.7	29.7	4.3%
BOSSARD HOLDING AG-REG A	1,597	3.69	N/A	14.9	13.9	11.8	11.0	28.9	21.0	9.7%
APPLIED INDUSTRIAL TECH INC	4,096	18.96	1.3	15.3	14.3	11.0	10.6	24.7	18.4	6.8%
Average	**2,631**	**14**	**2.28**	**12.9**	**12.7**	**9.4**	**9.2**	**40.8**	**20.6**	**6.1%**
Ibrahim Shaker	261	4.36	N/A	20.3	12.6	17.5	15.4	8.00	7.00	4.6%
(Discount)/premium to peers				**58%**	**-1%**	**87%**	**67%**			
Regional Peers										
Zamil Industrial Investment	349	3.06	N/A	N/A	1,985.5	89.7	23.3	25%	4.3%	(4.5%)
Jarir Marketing Company	5,591	9.55	4.3%	19.6	16.0	18.1	14.9	57.3%	57.4%	12%
United Electronics Company	1,933	7.79	3.6%	17.6	15.4	12.7	11.2	36.9%	16.7%	7%
Saudi Company for Hardware	348	2.86	5.3%	-39.5	22.7	42.9	13.9	-7.4%	0.6%	-3%
Average	**2,055**	**5.82**	**4.4%**	**18.6**	**18.0**	**24.6**	**15.8**	**28%**	**20%**	**3%**
Ibrahim Shaker	261	4.36	N/A	20.3	12.6	17.5	15.4	8%	7%	5%
(Discount)/premium to peers				**9%**	**-30%**	**-29%**	**-2%**			

Source: Company Data, Bloomberg, Arqaam Capital Research

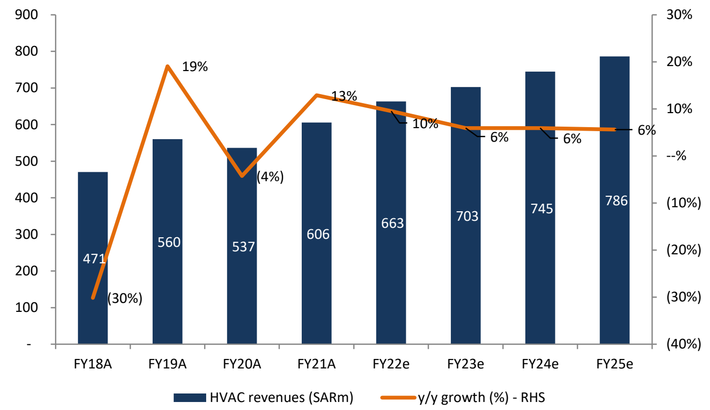
Shaker offers a wide spectrum of air conditioners and home appliances in KSA.

Shaker is one of the largest distributors of air conditioners and home appliances in Saudi, operating via three segments, i) retail and wholesale, ii) business to business (B2B), and iii) projects, in addition to providing energy-saving consultancy, rehabilitation, and development services for air-conditioning systems. The company is an exclusive agent for LG air conditioners in the KSA and an authorized distributor for several home appliance brands, including Maytag, Ariston, Indesit, Midea, Bompani ovens etc. Shaker also owns a 49% stake in the LG Manufacturing facility in KSA, while LG Company owns the remaining 51% of the factor. The group has a presence in Jordan (via subsidiary, New Vision for Electronics; 60% stake) and UAE (subsidiary, Energy Management Services; 74% stake), together representing < c.7% of the group's revenue.

Heating, ventilation & air conditioning (HVAV) segment (55% of topline, 56% of GP): HVAC is the largest business segment (contributing c.55% of group revenues) and involves the trading and manufacturing of air conditioners, catering to a broad customers base including i) consumer (split, window or floor standing, ceiling, cassette), ii) commercial (ceiling concealed duct, split, single package), and iii) applied (chillers, fan coil, VRF, air handling unit). The company is an exclusive distributor of LG air conditioners in the KSA, with 3rd largest market share (~12.5%) in the total AC market. The segment's contribution to group's sales has declined over time (FY21A 56% vs. 71% FY16A; 5-yr sales CAGR -12.3%) as LG company discontinued two products; window and split (with on/off compressors) in 2016 (making ~15-20% of total AC sales), shifting focus on the latest/energy-efficient technology, inverters. While consumers only gradually adopted to new product/technology (inverters' contribution to AC sales increased to 37% in FY21A vs. 21% in FY18A). Segment's GPM improved to 20% FY21A vs. 7.6% FY18A, as margin-accretive inverter and B2B sales continued to expand.

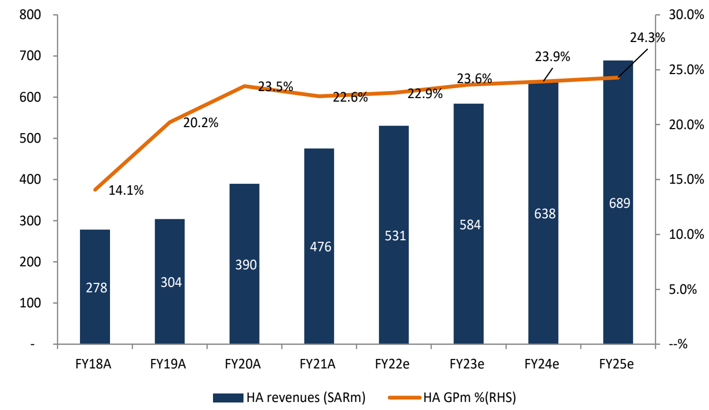
Home appliances (HA) segment (45% of topline, 44% of GP): The segment mainly supplies household electronics, including i) major appliances such as dishwashers, cooking range, refrigeration, and laundry, and ii) smaller appliances comprising floor care, vacuum, iron, cooking and food preparation appliances. The segment's growth has remained largely flattish (5-yr sales CAGR 0.5%) due to a higher focus on AC sales in the past. Nevertheless, the segment carries relatively higher margins (~22-23% vs. 19-20% for AC) and is now becoming management's prime focus for future expansion. The company has added new brand, Bompani (cookers) and over FY20-21A, now driving > c.12% of total HA sales. Segment's contribution to group revenues improved to 44% in FY21A vs. 28% in FY16A.

Exhibit 3: HVAC sales (SARm) vs. y/y growth



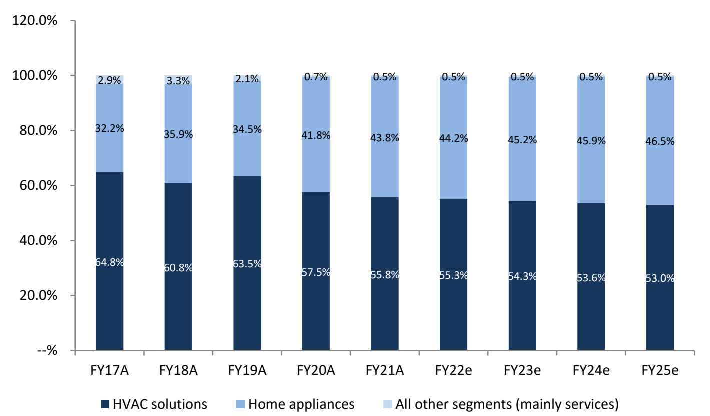
Source: Company Data, Arqaam Capital Research

Exhibit 4: HA sales (SARm) vs. y/y growth



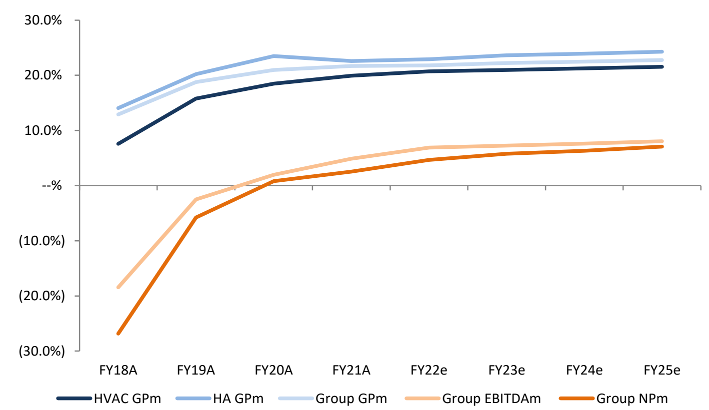
Source: Company Data, Arqaam Capital Research

Exhibit 5: Revenue contribution from higher margin accretive HA segment is increasing….



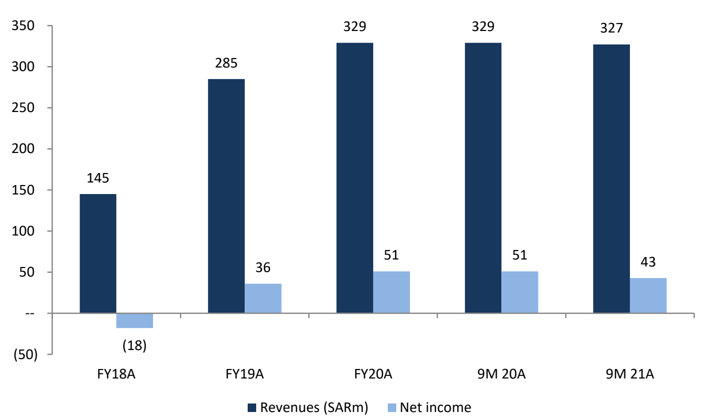
Source: Company Data, Arqaam Capital Research

Exhibit 6: …supporting the group margins



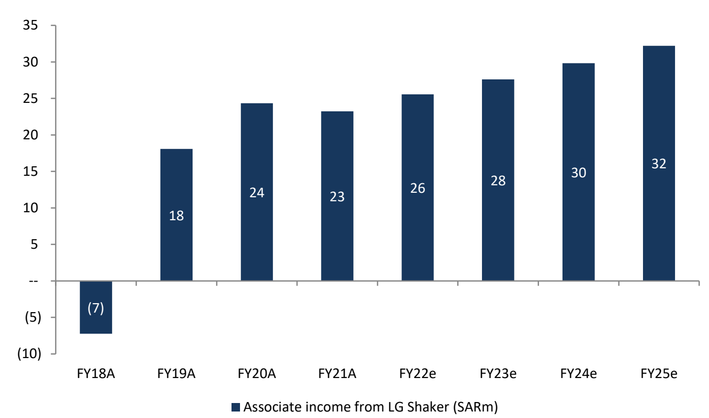
Source: Company Data, Arqaam Capital Research

Exhibit 7: LG factory revenues vs. net income (~49% stake owned by Shaker)



Source: Company Data, Arqaam Capital Research

Exhibit 8: Associate income from LG factory is growing…



Source: Company Data, Arqaam Capital Research

Strong distribution infrastructure and wide customer footprint

Exhibit 9: More than 1,000 S&D points across the region across different sales channels

Riyadh: 476 S&D points

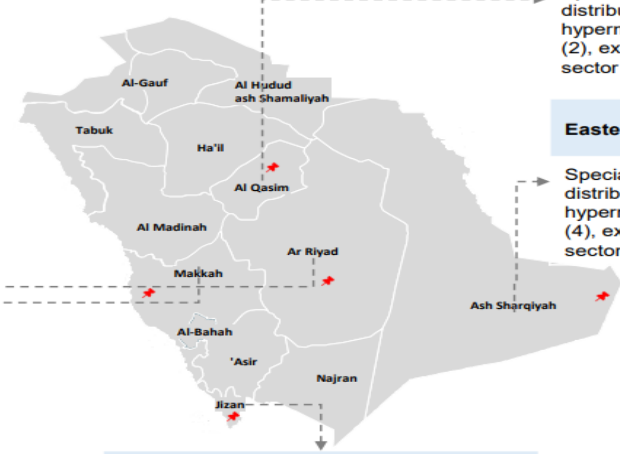
Speciality distributors (91), traditional distributors (10), contractors (363) hypermarkets (2), speciality supermarkets (5), exclusive showrooms (2), government sector (3)

Al Qassim: 98 S&D points

Speciality distributors (57), traditional distributors (5), contractors (30) hypermarkets (1), speciality supermarkets (2), exclusive showrooms (1), government sector (2)

Eastern Region: 240 S&D points

Speciality distributors (95), traditional distributors (13), contractors (123) hypermarkets (2), speciality supermarkets (4), exclusive showrooms (1), government sector (2)



Western Region: 262 S&D points

Speciality distributors (94), traditional distributors (13), contractors (142) hypermarkets (2), speciality supermarkets (7), exclusive showrooms (1), government sector (3)

Southern Region: 113 S&D points

Speciality distributors (7), traditional distributors (7), contractors (13) hypermarkets (0), speciality supermarkets (3), exclusive showrooms (1), government sector (1)

Source: Company accounts, Arqaam Capital Research

Exhibit 10: Distribution network spans modern trade and traditional stores. Major customers under B2C channels.

Modern Trade Customers ("MTC") reach

Line of businesses
- Mobile and tablets
- TV and entertainment
- Home appliances
- Computing and video gaming
- Home furniture and Improvements

Regional coverage
- KSA
- Kuwait
- UAE
- Bahrain

Retail Outlets: 100+

Growth 20: +15%

# of clients: +15%

Traditional trade and Key Accounts channel reach

Line of businesses
- Mobile and tablets
- TV an entertainment
- Home appliances
- Computers and laptops

Regional coverage
- KSA

Retail Outlets: 150+

Growth 20: +40%

# of clients: 40+

Source: Company accounts, Arqaam Capital Research

Turnaround strategy brings business out of losses: Higher focus on margin accretive B2B HVAC and home appliances segment.

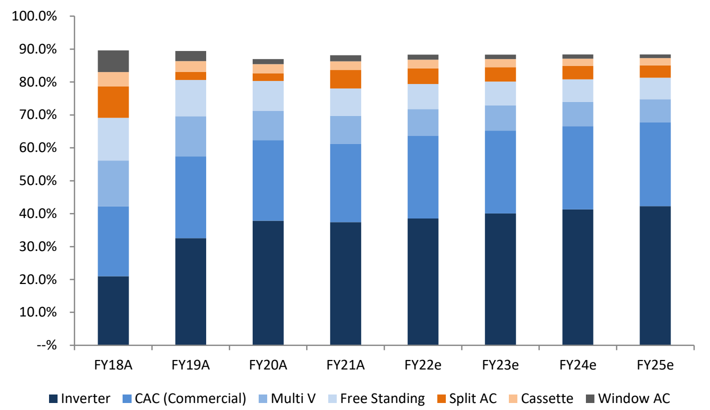
The strategic transformation program is based on three key pillars: In early 2019, Shaker management announced the launch of the business transformation program which focuses on three key features, i) maintaining or expanding market share in the KSA AC market with a higher focus on margin-accretive commercial (B2B), projects and after-sales-services business, ii) expansion into home appliances segment, adding new brands/products, and iii) higher focus on operational and working capital efficiencies (cost control/automation/supply chain and inventory management). The management successfully turned around operations with business returning to profitability in FY20A after 3 consecutive years of losses (GPm 21% vs. 17% in FY17A).

Growing B2B sales support HVAC segment's margins: HVAC margins improved to ~20% in FY21A vs. 7.6% in FY18A, as focus continued to increase on margin accretive B2B (GPM 24%) vs. B2C (GPM 18%) sales, as evident from CAC's (commercial) contribution to total AC sales at 24% in FY21A vs. 21% in FY18A, while split and window contribution dropped to 5.6% (vs. 9.5% FY18A) and 1.8% (vs. 6.6% FY18A), respectively. The company aims to target upcoming mega projects (Neom, Amaala, Qiddiya, and the Red Sea), contractors, and real estate developers and sell high-efficiency AC products in line with the government's targets and Vision 2030 to reduce energy consumption. We expect CAC contribution to reach ~26% of total AC sales by FY26e, growing at a 5-yr CAGR of 7.8%. While inverter sales continue to ramp up, growing at a 5-year CAGR of 8.9%. Consequently, we expect the AC segment's GP margin to reach ~21.6% by FY26e vs. 19.9% in FY21A (appendix: exhibit 53).

Increasing focus on the HA segment. Product and brand optimization underway: In 2018, Shaker started increasing exposure to the higher-margin home appliances segment via new brand and product additions. The company aims to acquire a leading market position, specifically in refrigerators, washing machines, and ovens and strengthen its position as the top 3 distributors in each sector. The recent brand additions include Bompani (cookers) during FY20-21A. The segment's contribution to total sales jumped to ~44% in FY21A vs. 36% in FY18A. We expect HA sales to grow at FY21-26e CAGR of 11.6% with a contribution to total sales at 49% (appendix exhibit 53).

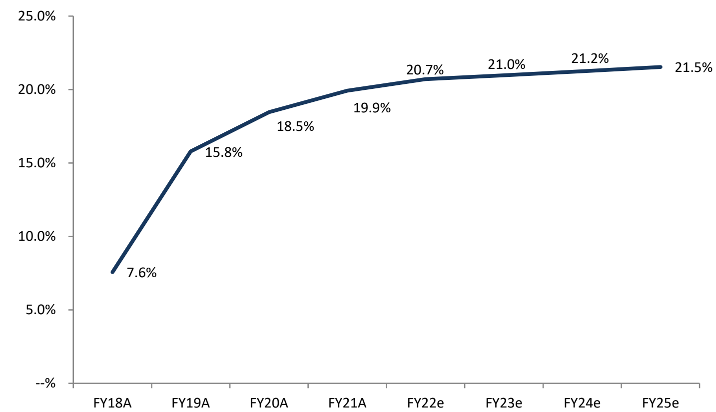
Cost-cutting initiatives/operational efficiencies: Operations efficiencies to be achieved via better supply chain/inventory management, economies of scale via improved brand awareness/marketing initiatives and process automation. The introduction of artificial intelligence technology and advanced robotics at the LG factory, in addition to in-house manufacturing of key parts, has led to a gradual change in production speed. Moreover, the business runs on high operating leverage (>50% of the total cost is fixed). LG factory currently operates at 450k units p.a. operational capacity (vs. 900k units of full capacity). Scale expansion could bring further operational cost savings at the group level.

Exhibit 11: HVAC revenue mix - Margin accretive CAC and inverter sales contribution is improving



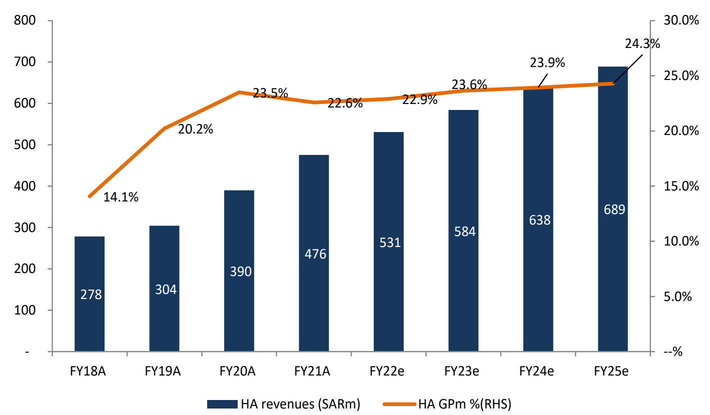
Source: Company Data, Arqaam Capital Research

Exhibit 12: …which would fetch in improved margins for the segment



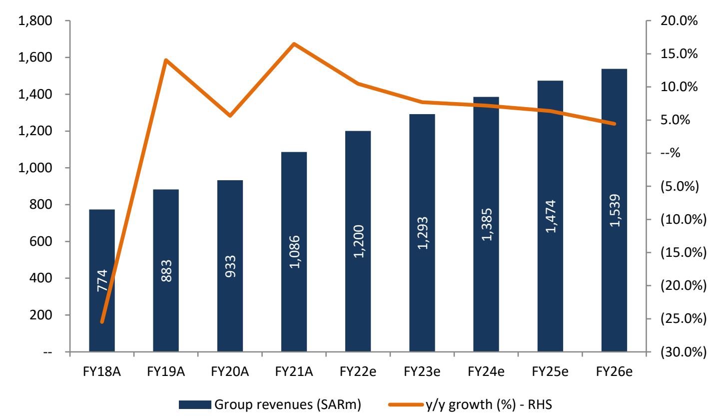
Source: Company Data, Arqaam Capital Research

Exhibit 13: Increasing exposure to margin-accretive HA segment to further support group margins



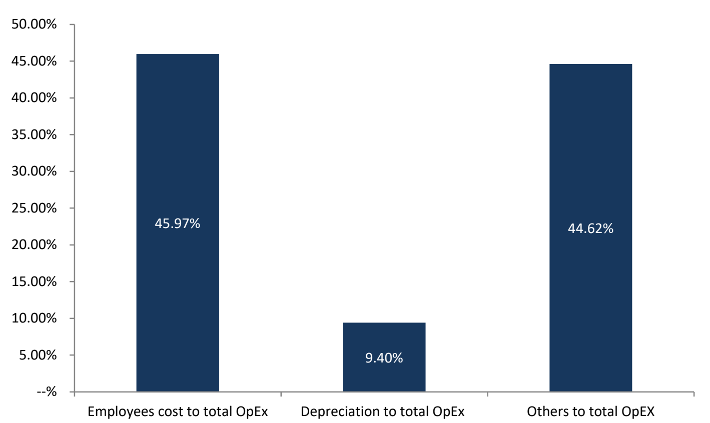
Source: Company Data, Arqaam Capital Research

Exhibit 14: We expect group revenues to grow at a 5-yr CAGR of 8%



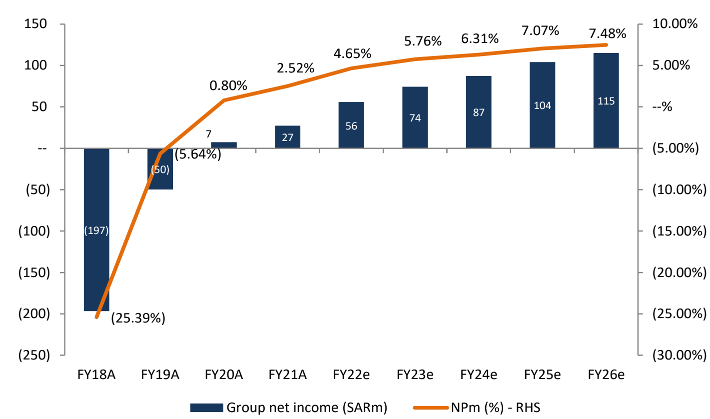
Source: Company Data, Arqaam Capital Research

Exhibit 15: >50% of total costs is fixed in nature, supporting EPS as scale / volumes expand…



Source: Company Data, Arqaam Capital Research

Exhibit 16: …we see a 5-yr EPS CAGR of 33%



Source: Company Data, Arqaam Capital Research

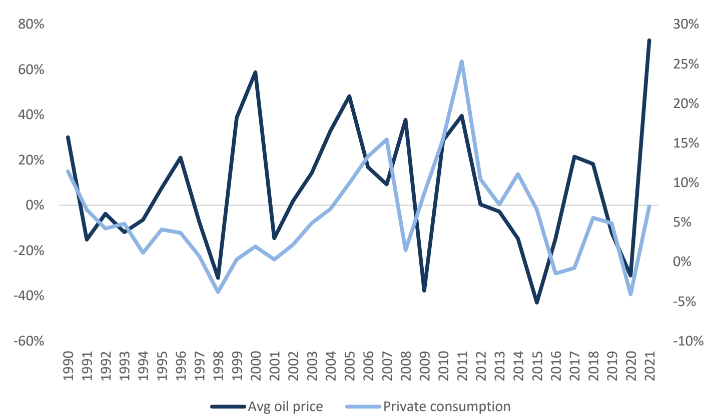
KSA electronics – underlying fundamentals support LT structural growth

- **KSA electronics spending expanded +31% y/y in FY20A, outperforming the general economy (-4.1% y/y) on pre-VAT buying / limited travels. Though consumption is normalizing off from a high base, we expect MT/LT sustained growth on favorable dynamics (higher oil output/population growth/Vision 2030 growth targets).**
- **KSA's demographics (growing population +2.2% FY17-21A with >50% below age 45) remain favorable for discretionary spending (new housing units / higher household spending), while disposable income/capita also continues to improve.**
- **KSA labor market picks up post pandemic (Q4 21A total employed persons +2.7% q/q, with female workers expanding +2.2% q/q). Higher female participation in the labor force builds up a case for increased disposable income and hence improved discretionary spending in MT/LT.**

KSA electronics market outperformed broader economy during 2020: Electronics retail in 2020 has outperformed the broader KSA economy in terms of sales performance (electronics PoS +31% y/y vs. GDP -4.1%), lifted by (i) pre-VAT hike buying, and (ii) higher localized spending amid non-existent outbound travels. However, in general, consumer discretionary spending is highly sensitive to the economic health and tends to expand during good times and vice versa.

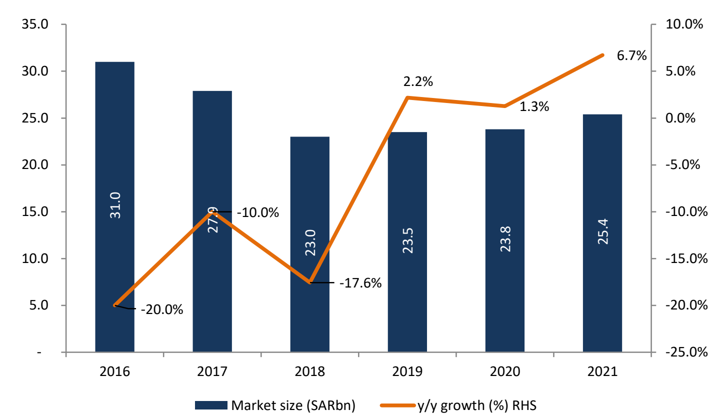
We are positive about MT/LT consumer spending growth prospects aided by i) stronger oil (+15% YtD), ii) expat population recovery (+11% y/y), and iii) Vision 2030 ambitious targets (lower unemployment rate c.9% by FY24e vs. 13% now / higher wages SAR 4k/month vs. SAR3k previously, etc.). The recently announced low-income support package (SAR 20bn/Citizens Account) further enables higher purchasing power. Upside: potential VAT reduction in 3 years.

Exhibit 17: KSA consumer spending is highly sensitive to oil prices…



Source: Company Data, Arqaam Capital Research

Exhibit 18: … and so is electronics market which dropped c.10-17% during 2017-18 fiscal crisis



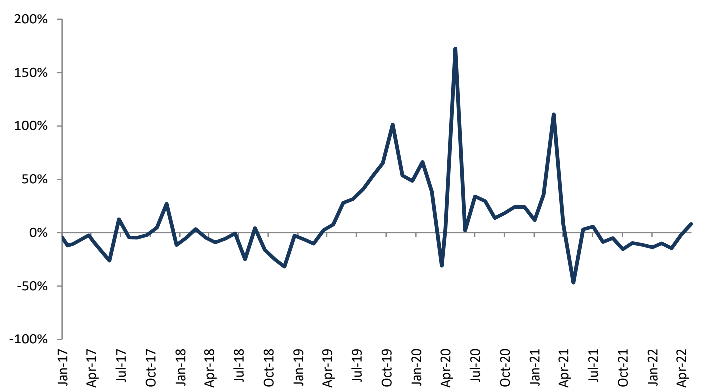
Source: Company Data, Arqaam Capital Research

Exhibit 19: Medium-Term Fiscal Projections

		Budget		Budget	Projections	
	2018	2019	2020	2021	2022	2023
Total Revenues	906	927	833	849	864	928
Total Expenditures	1,079	1,059	1,020	990	955	941
Budget Deficit	(174)	(133)	(187)	(141)	(91)	(13)
% of GDP	-5.9%	-4.5%	-6.4%	-4.9%	-3.0%	-0.4%
Public Debt	560	678	754	937	1,013	1,026
% of GDP	19.0%	22.8%	26.0%	32.7%	33.3%	31.7%
Government Reserves at SAMA	490	470	346	280	265	265

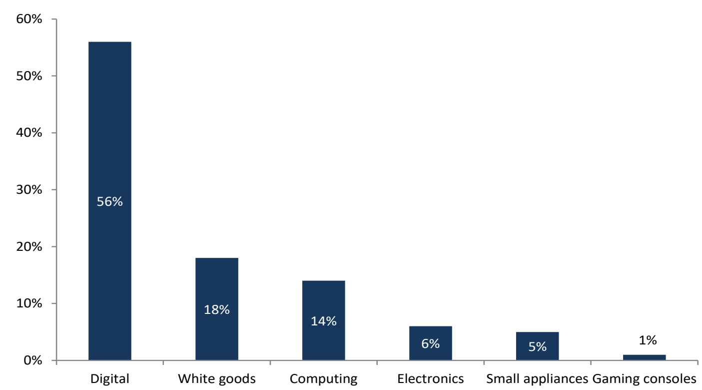
Source: Ministry of Finance, Arqaam Capital Research

Exhibit 20: Electronics POS expanded during FY20-21A on pre-VAT hike purchases / limited travel.



Source: Company Data, Arqaam Capital Research

Exhibit 21: Consumer appliances (white + small) together represent c.23% of total electronics market.

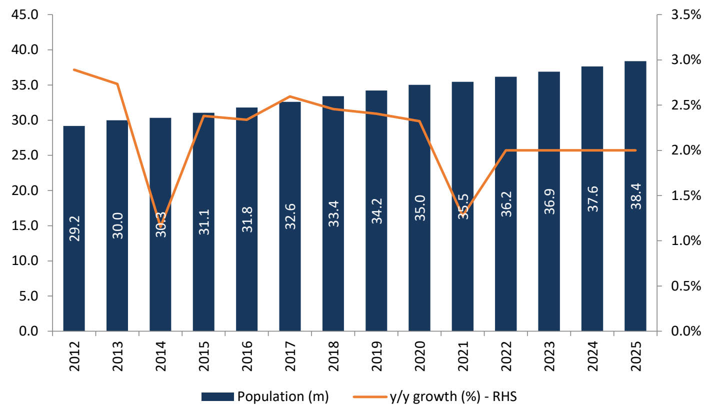


Source: Company Data, Arqaam Capital Research

KSA's demographics are conducive to long-term steady consumption growth: We see a compelling case for LT structural growth as the country's demographic profile is predominantly young, with the broader population growing at 2.2% CAGR during FY16-21 to reach 35.5m and estimated to further grow to 38.4m by FY25e. 58% of the Saudi population is aged between 15-44, corresponding to a working age class whose higher disposable income and spending levels favor the household appliances/electronics market.

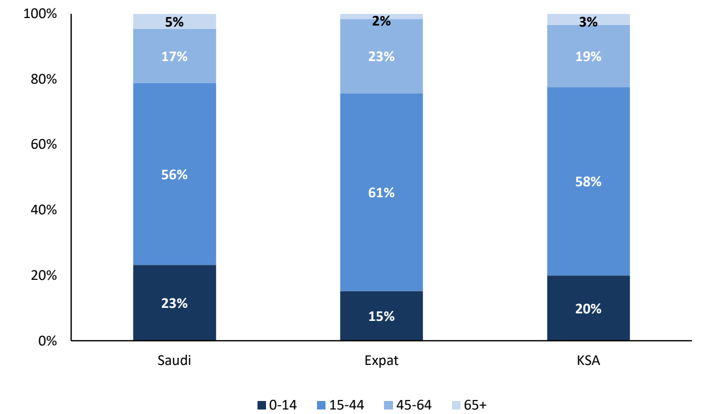
Social changes are welcomed for the consumer space: Social changes and economic reforms in favor of the tourism/hospitality sector and higher participation of the private sector should create job opportunities that were otherwise non-existent in the previous fiscal cycle. This also builds on higher female employment, which should help consumption patterns grow as disposable income finds its way to a new subset of the population.

Exhibit 22: KSA population on a rising trend



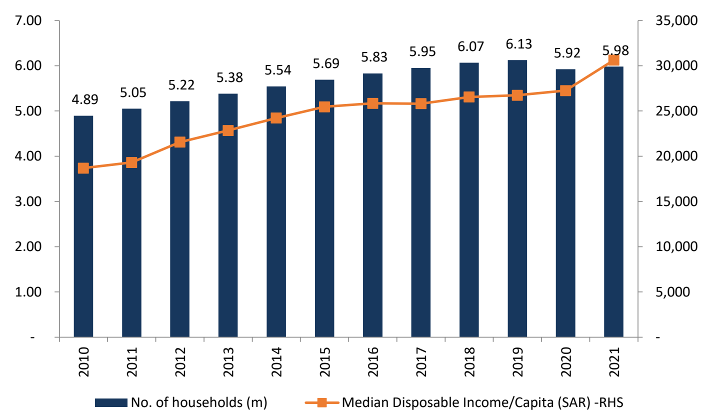
Source: General Authority of Statistics, Company Data, Arqaam Capital Research

Exhibit 23: …supported by 58% of citizens below age 45



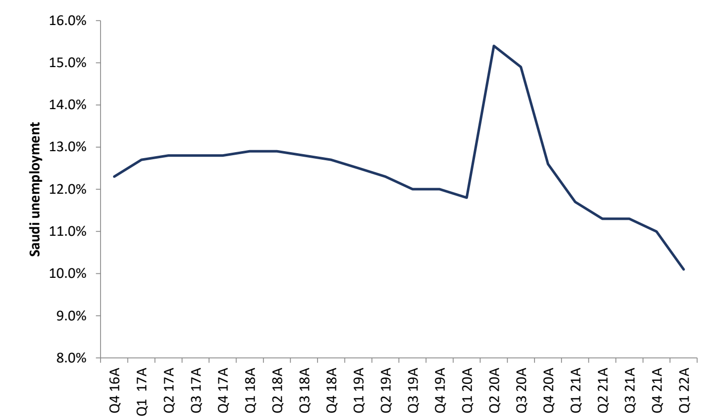
Source: General Authority of Statistics, Company Data, Arqaam Capital Research

Exhibit 24: KSA no. of households continue to increase. Disposable income is growing.



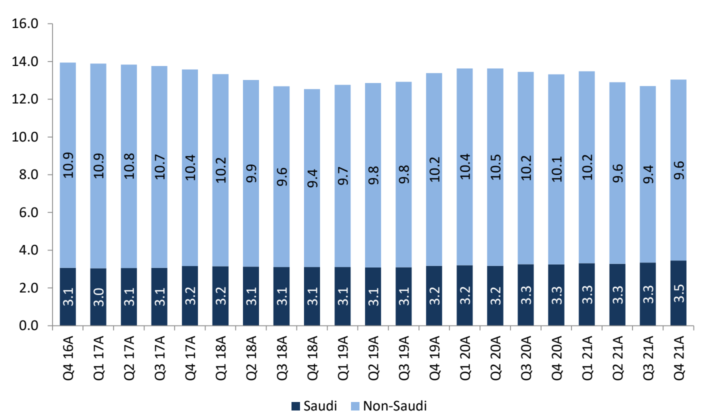
Source: Euromonitor, Company Data, Arqaam Capital Research

Exhibit 25: Shrinking unemployment rate



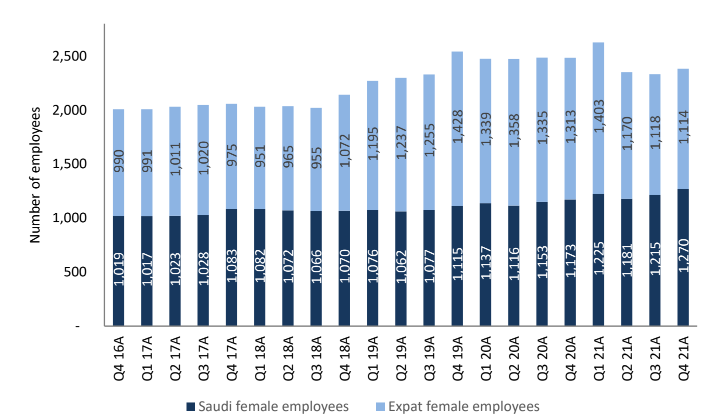
Source: GoAS, Company Data, Arqaam Capital Research

Exhibit 26: KSA labor stats (Saudi vs. expats) are improving



Source: GoAS, Arqaam Capital Research

Exhibit 27: Female labor force participation is picking up



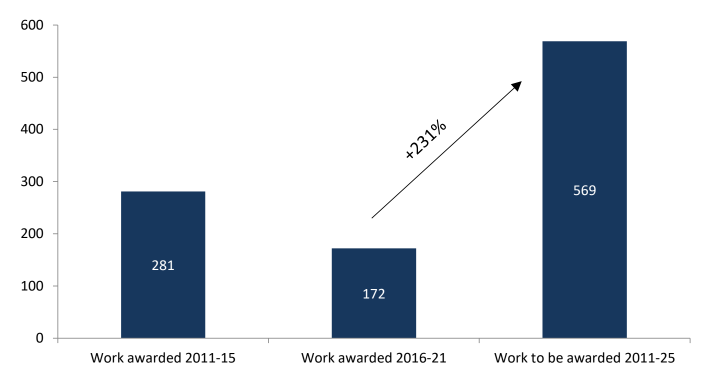
Source: GoAS, Arqaam Capital Research

KSA construction: PIF's megaproject program to spur growth in construction over the next five years

- **The Public Investment Fund (PIF) targets to invest SAR 3tr over the next decade in KSA, primarily on mega projects in the Northern, Western, and Central regions.**
- **Spending on mega projects will aid KSA's goal of growing home ownership to 70% in 2030, supported by an active local mortgage market**
- **KSA's megaproject program is only 2% awarded so far, but c.50% of the planned work will be awarded over the next 5 years.**

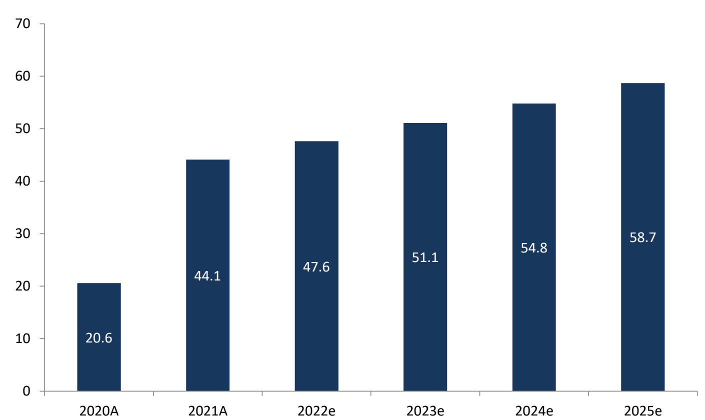
New project awards are planned to triple over the next five years in KSA, largely driven by tender awards in the residential, leisure, hospitality, and public sectors. Growth will be supported by public spending on mega projects, including Neom (residential), The Red Sea (hospitality & leisure), and Qiddiya (leisure), as the Public Investment Fund (PIF) targets to invest SAR 3tr over the next decade in KSA. Spending on mega projects will aid KSA's goal of growing home ownership to 70% in 2030 from 62% currently, supported by an active local mortgage market. Real estate prices will likely remain aligned with tender price inflation of 4-5% in 2022e, specifically in Riyadh, as the government accelerates its initiatives to push Riyadh to become the region's business hub, underpinning residential demand from both Saudi nationals and expatriates. Project awards in KSA nearly doubled y/y in 2021 to USD 41bn off a slow activity in 2020, of which 15% are under actual execution.

Exhibit 28: Value of KSA projects awarded in 2011-21 vs. 2021 25 (USD bn)



Source: MEED, Arqaam Capital Research

Exhibit 29: KSA project award forecast (USD bn)



Source: MEED, Arqaam Capital Research

Construction works in KSA are primarily concentrated in the Central, Western and Northern regions: the current pipeline of projects under execution has an estimated budget of USD 1.6tr, 51% of which are in the northern region close to the Tabuk area, 21% in the western region, and 15% in the central region. KSA is targeting to spend another USD 1.2tr on megaprojects over the next 15 years, 50%+ of which is owned by the Public Investment Fund (PIF). Only 2% of the budgeted work in megaprojects are awarded so far (mostly in Qidiya, Diriyah, Amaala, The Red Sea Project), but the execution is likely to accelerate in the coming years as c.50% of the planned construction work will be awarded by FY 25e.

Exhibit 30: KSA megaproject program: only 2% awarded so far

Mega project	Total value (USD bn)	Value awarded (USD bn)	% awarded
NEOM	500	2.9	1%
Al Ula	15	0.05	0%
Diriyah Gate	20	3.5	18%
ROSHN	90	1.1	1%
Qiddiyah	6.5	3.5	54%
Jeddah Central	20	0	0%
Rua Al Madinah	10	0	0%
Green Riyadh	22	0	0%
King Salman Int. Park	17	0.5	3%
Amaala	1.4	0.28	20%
Boutique Group	1.5	0	0%
The Red Sea Project	16	2.4	15%
SEVEN	5	0.1	2%
Arabian Highland	13	0	0%
Total	**737.4**	**14.33**	**2%**

Source: MEED, Arqaam Capital Research

Exhibit 31: Around 50% of the planned projects will be awarded over the next 5 years

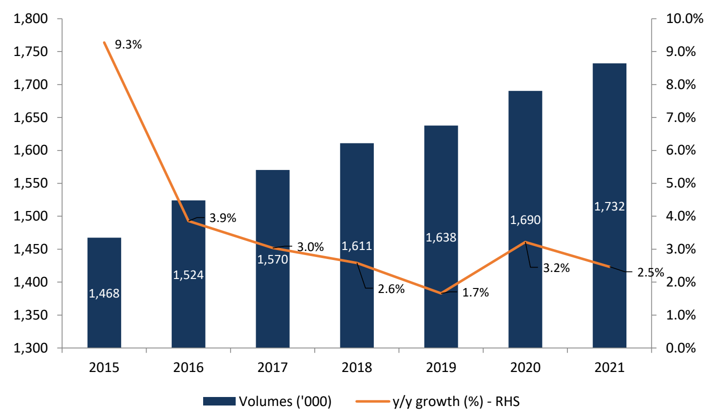
Project	Completion date	Remaining work value (USD bn)	Value of work to be awarded 2021-2025 (USD bn)
ROSHN	2030	89	45
Neom	2040	498	125
TRSDC	2024 (1st phase)	13.6	6.8
Amaala	2024	1	1
Madinah Al Rua	2030	10	5
SEVEN	2025	4.9	4.9
Qiddiya	2024	5.2	5.2
Arabian Highland	2030	13	6.5
TOTAL PIF	**NA**	**635**	**199**
TOTAL OTHERS	**NA**	**546**	**370**
TOTAL ALL	**NA**	**1,180**	**569**

Source: MEED, Arqaam Capital Research

Shaker remains the 3rd largest player in the Saudi AC market. Targeting growth via mega projects and housing boom

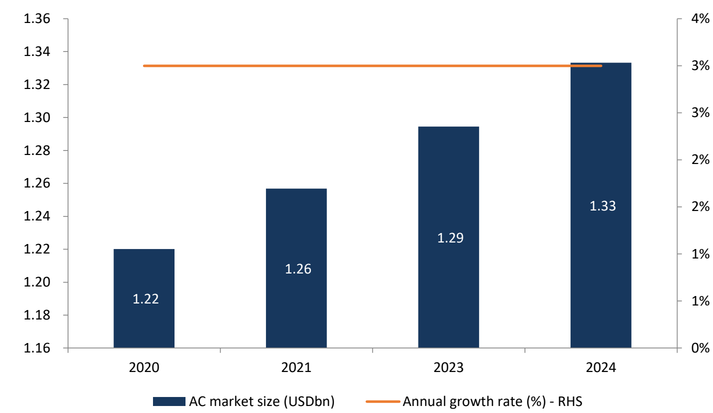
KSA AC market is expected to reach USD 1.3bn by FY24e, growing at a 3-yr CAGR of 3%: MENA AC market grew at a 2.2% CAGR over 2016-21. KSA, despite having the largest consumer market in the region, witnessed a growth of only 2.6% over the same period (vs. population growth of 2.2%), reaching 1.7m units in FY21A vs. 1.5m units in FY16A, with consumption impacted by the introduction of VAT, higher Saudization requirements & expat levies, and persistently low oil prices. As per some estimates, KSA AC market is expected to grow at a 3-yr CAGR of ~3%, reaching > USD 1.3bn by FY24, driven via i) population growth (> c.2% per year) with ~670k planned new housing units (requiring 4-5m AC units), ii) new infrastructure projects (Amaala, Neom, Red Sea etc.), and iii) Saudi Energy Efficiency Center (SEEC) projects (stimulus of SAR 400m for energy efficient ACs) amid growing consumer demand for energy-saving products due to the high electricity costs. In this regard, Shaker has also obtained the certificate from SEEC, to provide engineering assessment services, manage energy efficiency projects, data review and audit, and provide measurement services.

Exhibit 32: KSA AC market volumes grew at a CAGR of 2.6% over last 5 years



Source: Company Data, Arqaam Capital Research, Euromonitor

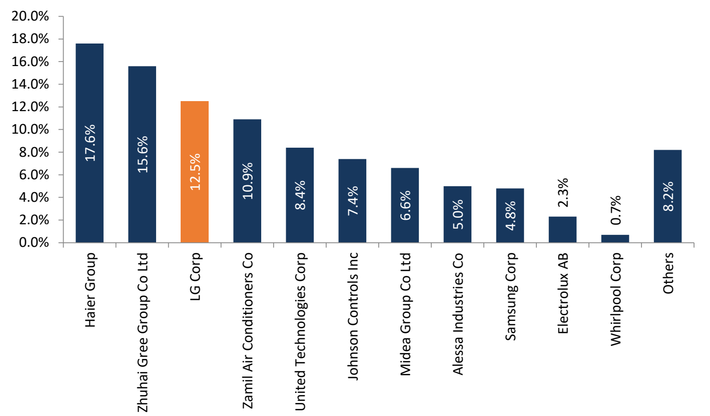
Exhibit 33: Saudi total AC market size is expected to reach USD 1.3bn by FY24e (at 3-yr CAGR 3%)



Source: Company Data, Arqaam Capital Research, Euromonitor, 6W Research

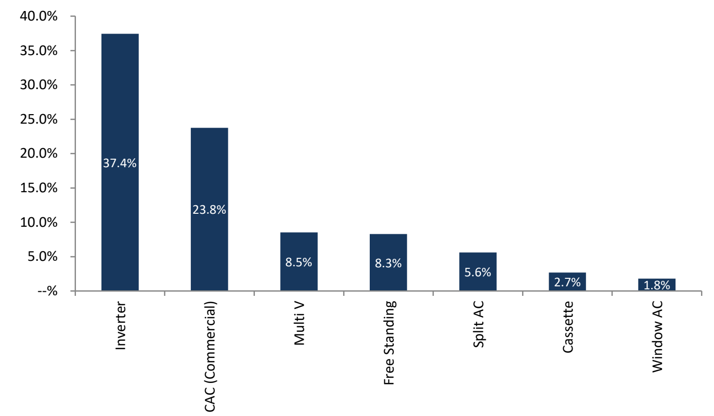
Shaker remains the 3rd largest AC distributor in the KSA, and is well positioned to benefit from upcoming mega infrastructure projects: Shaker is currently the 3rd largest player in Saudi total AC market (LG AC MS 12.5%), while Haier (MS 17.6%) and Gree (MS 15.6%) remain the first and second largest players, respectively. Shaker aims to target projects, contractors and real estate developers and sell high-efficiency air conditioners in-line with Kingdom's Vision 2030. Saudi has a strong pipeline of mega infrastructure projects, expected to come online over next 10 years with a total value of > SAR 3tr. Shaker is bidding for HVAC projects with a total worth of over SAR 1bn (exhibit 40). The company's favorable product mix (with high concentration in commercial, energy efficient inverter, and Multi V, together making 70% of total AC sales) allows it to fully cater to upcoming demand boom, in our view. Moreover, we expect positive support from higher retrofit projects in the Kingdom with >250k government buildings aged 25-30 years and government commitment of SAR 2bn for respective projects.

Exhibit 34: LG (exclusive distributor Shaker) is 3rd largest player in Saudi total AC market (in volume terms)



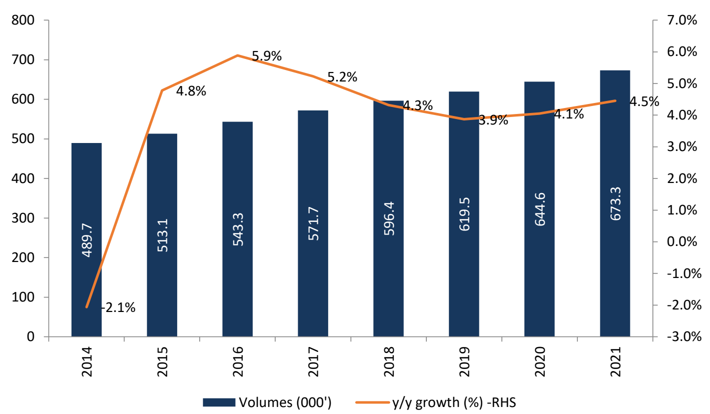
Source: Euromonitor, Arqaam Capital Research

Exhibit 35: Shaker HVAC sales breakdown – Inverter is the largest contributor (37%), followed by CAC (24%).



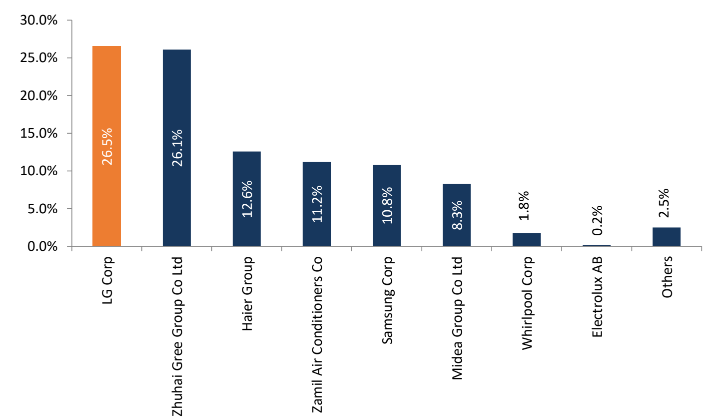
Source: Company Data, Arqaam Capital Research

Exhibit 36: KSA split AC volumes



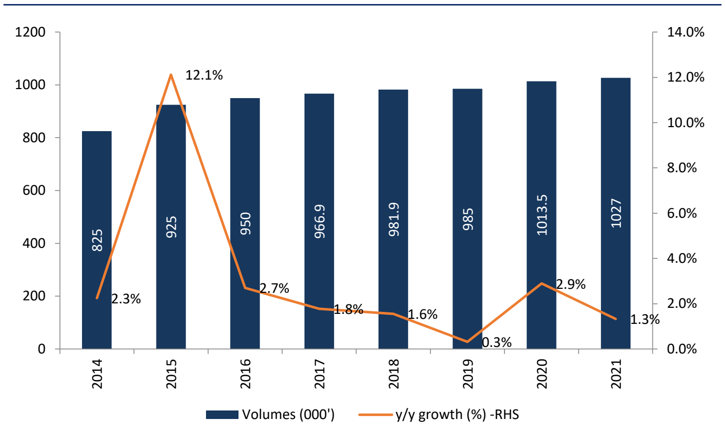
Source: Euromonitor, Arqaam Capital Research

Exhibit 37: KSA split AC – Market share (LG is largest MS 26.5%)



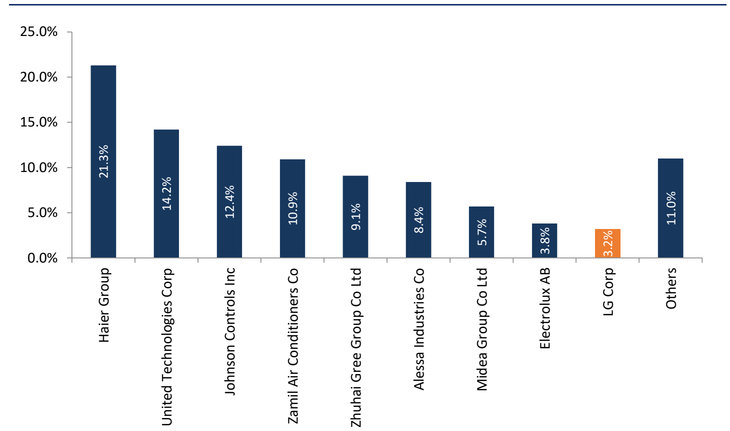
Source: Euromonitor, Arqaam Capital Research

Exhibit 38: KSA window AC volume growth has slowed down with introduction of inverter technology



Source: Euromonitor, Arqaam Capital Research

Exhibit 39: KSA window AC – Market share (Haier is largest 21.3%)



Source: Euromonitor, Arqaam Capital Research

Exhibit 40: Shaker is bidding for HVAC projects with a pipeline of > SAR 1.2 bn

Project category	Status	Expected value (SARm)	Expected share of Shaker (SARm)
Residential	Tender	592	196
Tourism & Hospitality	Tender	373	131
Education	Tender	118	43
Commercial	Tender	181	76
Total		**1,264**	**446**

Source: Company Data, Arqaam Capital Research

SEEC and Tarshid initiatives promote higher energy efficiency. We see Shaker as a major beneficiary

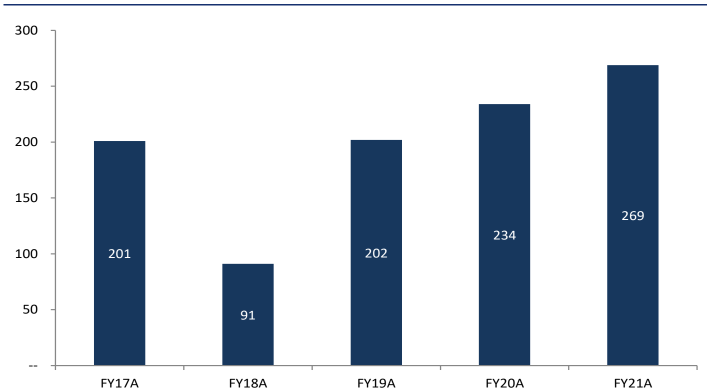
Saudi Energy Efficiency Center (SEEC) aims of to reduce energy consumption by replacing old air conditioners with more efficient ones, supporting and incentivizing both the consumer and the local AC manufacturer.

- **Phase 1** was launched in Oct-18 and ended in Dec-21 with target to replace 400k of AC Split units in the KSA. LG-Shaker took a leading share (M/S ~35%) of the SEEC 1 program.
- **Phase 2** is expected to launch by YE 2022e or early 2023e and aims to target window AC replacement through local manufacturers. LG-Shaker would be participating in this initiative, targeting leading share.

National Energy Services Company (Tarshid) was recently established by the Public Investment Fund (PIF) in collaboration with the Ministry of Energy, Ministry of Finance and the SEEC. Tarshid aims to be a pioneer in the energy efficiency field overlooking a more sustainable future through lighting and HVAC retrofitting for more than 250k government buildings across the KSA. LG-Shaker being a leader in AC manufacturing and owning pioneer technology in energy efficiency is participating in projects under the umbrella of Tarshid through its arm Energy Services Company (ESCO).

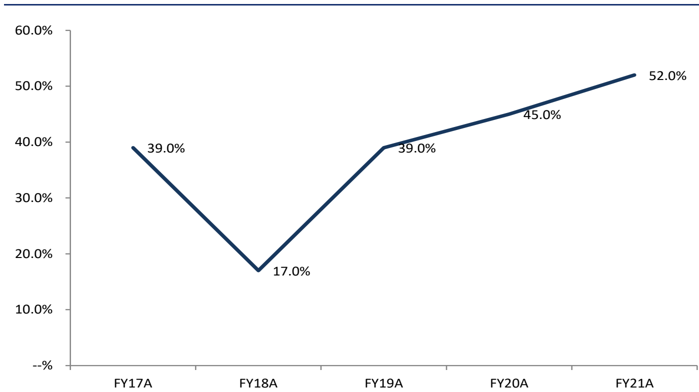
Moreover, **Saudi Vision 2030 aims to enhance local content** in various sectors, through localizing the production of goods and services to raise their competitiveness and create sustainable job opportunities. We see Shaker as one of the top beneficiaries, with factory's current running capacity at ~450-520k units p.a. (vs. 650k total; upgraded at minimal CapEx).

Exhibit 41: Total factory production (units '000)



Source: Company Data, Arqaam Capital Research

Exhibit 42: LG factory utilization (%)

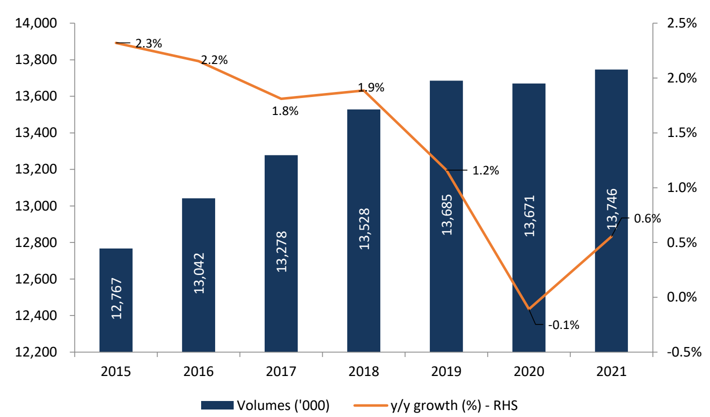


Source: Company Data, Arqaam Capital Research

HA segment is becoming the focal point for future growth.

The home appliances market has grown at a FY16-21A CAGR of ~1.06%. We expect growth to pick up on changing consumer behavior: The KSA consumer appliances market volumes (excluding ACs) grew at a CAGR of 1.06% over FY16-21A. During 2020, though volumes picked up ahead of VAT hike (in June), many consumers postponed purchases of big-ticket items – repairing existing refrigeration or home laundry appliances, rather than purchasing a new one due to inflationary pressure. A slower housing market activity amid lockdowns also hurt the demand for major appliances, despite support closed boarders (elevated consumption otherwise). Consumer demand is shifting from standard to premium, multi-functional and more energy-efficient appliances, specifically amid rising energy costs. Moreover, the pandemic has increased consumers' interest in health and wellness, boosting the demand for small cooking appliances like light fryers and rice cookers, etc.

Exhibit 43: KSA home appliances market grew 1.06% / annum over last 5 years.



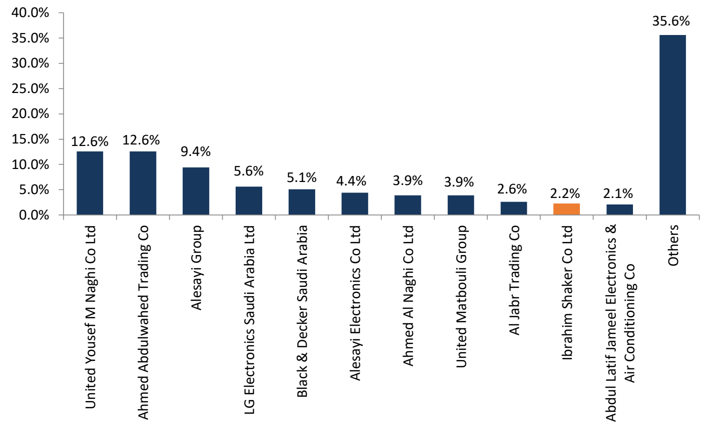
Source: Euromonitor, Arqaam Capital Research

Exhibit 44: Shaker's current HA brand portfolio with most of the brands as high-end (flexibility vs. functionality)

Source: Company accounts, Arqaam Capital Research

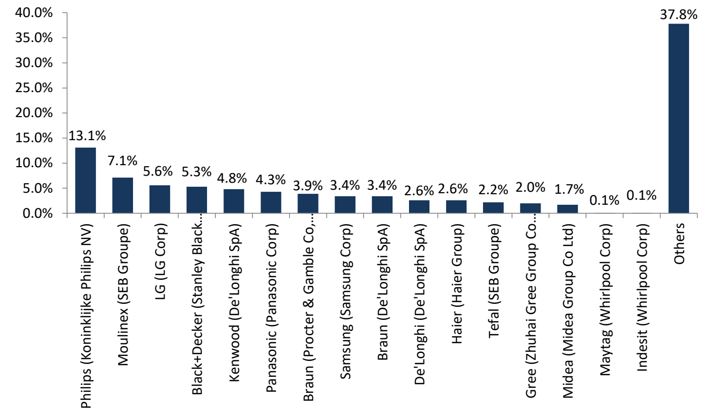
Shaker's HA brands count among the top 10 in the Kingdom, and it is expanding the brand portfolio to become a leader in the segment. International brands like Philips, Moulinex, Kenwood, LG, Braun, and Samsung continue to dominate consumer appliances in Saudi Arabia. These are generally distributed by local companies, such as Alesayi Group (Moulinex, Tefal and Rowenta) and Shaker Group (Midea, Hotpoint-Ariston and Indesit). Shaker distributes a wide range of high-quality home appliance brands and aims to further expand in the market specifically adding to refrigerators, washing machines, and ovens. Shaker targets to be among the top three distributors in each sector through its existing brands or new brands additions. Shaker recently added Bompaani, targeting the cooking range market.

Exhibit 45: KSA HA market share – company wise



Source: Euromonitor, Arqaam Capital Research

Exhibit 46: KSA HA market share – brand wise



Source: Euromonitor, Arqaam Capital Research

Exhibit 47: Shaker's focused HA categories based on opportunity

Home appliance category	Leader(s)	Shaker's ambition
Air conditioner	Midea, Gree, LG	Shaker aims to benefit from the newly introduced SEEC regulation (M/S gains)
TV	Samsung, LG	Potential to increase sales due to strategic nature of category although has low margins
Refrigerator	LG, Hitachi, Samsung	Opportunity to grow Midea plus requested Ariston and Maytag for new line-up
Washing machines	LG, Daewoo, Toshiba	Opportunity to grow Midea plus requested Ariston and Maytag for new line-up
Cooking	Glem-Gas, Gibson, GE	Opportunity to grow Midea and also improve share of Ariston and Bompani
Vacuum cleaners	Midea	-
Dish washers	LG, Midea, Whirlpool, Ariston	Shaker is strong in this category
Freezers	Midea	Shaker sees ample potential for growth in this category
Tumble dryers	LG, Maytag, Ariston, Whirlpool	Shaker is strong in this category
Microwaves	Midea	-

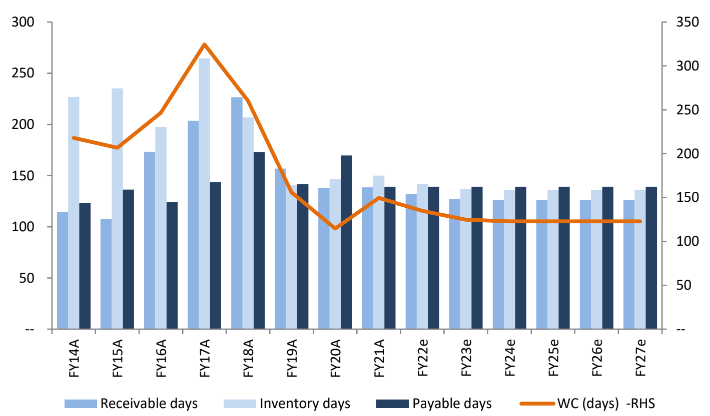
Source: Euromonitor, Company Data, Arqaam Capital Research

Refining working capital improves the debt profile

- **Shaker's business model runs on high working capital, owing to capital tied up with corporate / B2B customers (unlike retailers). This had resulted in higher leverage levels (amid minimal CapEx requirements).**
- **Supply chain revamp has improved WC to 115 days in FY20A vs. 325 in FY17A (33% of sales vs. 83% in FY17A). We expect this to sustain at 123-125 days, from now on.**
- **Rights issuance dilution of 25:48 is partly offset by the 53% discount of the offering (SAR 10 vs. TERP (1) of SAR 21.30, and 50% to TERP (2) of SAR 19.99), with the capital increase of SAR 249 equal to 18.5% of MC (SAR 100m to be allocated for debt reduction, with remaining to be invested in HA segment expansion).**

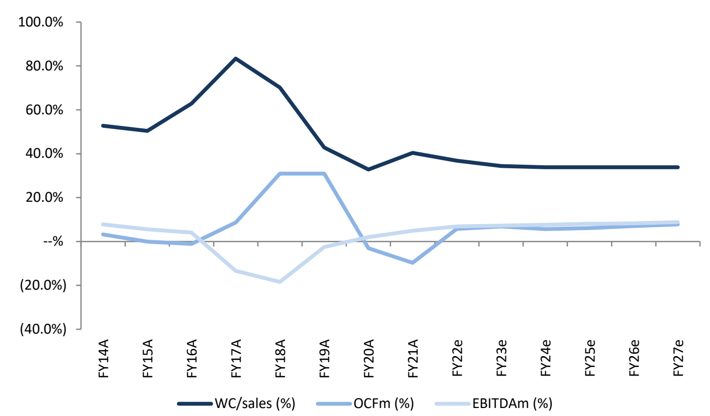
Optimization of supply chain efficiencies supports working capital: The business operates on high working capital (WC-to-sales c.40% vs. 2-2.5% regional electronic retailers), owing to huge capital tied up with corporate / B2B customers, unlike retailers (receivable days >200days vs. 10-15 days retailers). Moreover, the business has struggled with supply chain issues in the past, followed by high inventory levels (>250 days). However, the launch of the break-through program in 2019 has helped in streamlining the business operations/supply chain, followed by inventory and receivable days falling to 147 days in FY20A (vs. peak 265 FY17A) and 138 days (vs. 204 days FY17A), respectively. Consequently, total working capital improved to 115 days in FY20A vs. 325 in FY17A (33% of sales vs. 83% in FY17A), though it picked up in FY21A to 150 days due to increased inventory levels as safety stock to cover for supply shortages. We expect working capital to sustain at 123-125 days, supported by operational efficiencies.

Exhibit 48: Business runs on high WC, though now gradually improving on better supply chain management



Source: Company Data, Arqaam Capital Research

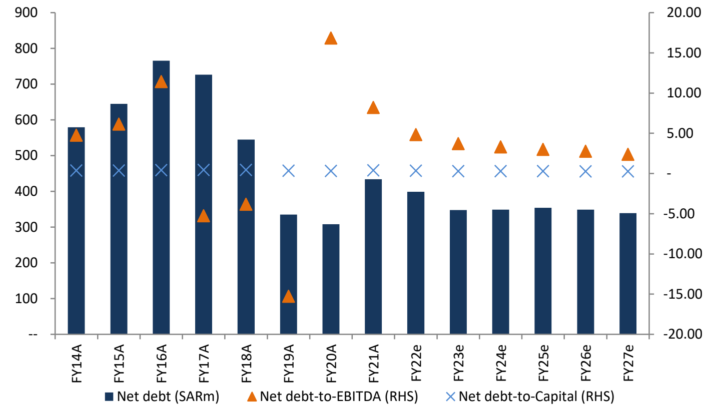
Exhibit 49: …followed by improved WC/sales



Source: Company Data, Arqaam Capital Research

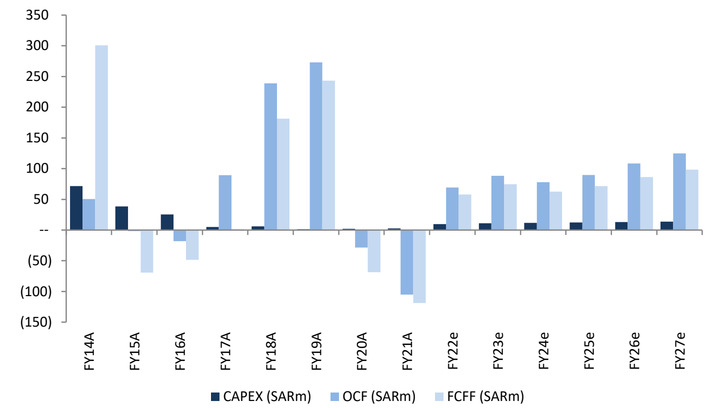
Better working capital management to reduce dependency on debt: The business' CapEx requirements have been limited in the past, though it had been grappling with high working capital needs, which were met via high leverage levels. We note net debt to EBITDA has reduced to 8.2x in FY21A vs. > 11x in FY16A as supply chain / WC efficiency efforts bear fruit. We expect further reduction leverage with net debt / EBITDA reducing to 3.7-4x (vs. >7x historically). This should be followed by more robust earnings in MT/LT as finance costs currently represent c.45-50% of EBIT and 60% of net income.

Exhibit 50: Financial leverage to improve….



Source: Company Data, Arqaam Capital Research

Exhibit 51: …as WC cycle eases, supporting FCF



Source: Company Data, Arqaam Capital Research

Rights issuance to support the B/S clean-up, raising 18.5% of the current market cap through a deeply discounted rights offering: Following the regulatory and shareholder approval in May 2022, the company has already successfully reduced its share capital from SAR 630m (63m shares) to SAR 482m (48m shares) or 23.4% of the capital via cancellation of 14.8m shares, eliminating the accumulated losses to 0%. This would be followed by a subsequent capital increase of 25m shares (51.62% of capital @ SAR 10) via rights issue (new NOSH at 73m vs. 48m currently).

We calculate an adjustment factor of 1.3061x for the write-down, lifting the TERP (1) to SAR 21.30, while the right of 25 new shares at SAR 10/share for every 48 shares yields an adjustment factor of 0.8194x, yielding a TERP (2) of 19.99, with a placement of SAR/share at 53%/50% discount to TERP 1/2 (Exhibit 52). This is welcome news, as the current net debt stands at SAR 363m with net debt/EBITDA >4.5x (as at June-22). Management plans to pay off at least SAR 100m debt via rights proceeds, while the remaining SAR 149m would be used for expansion/investment in home appliances segment.

Exhibit 52: TERP post rights issue (with capital vs. without capital reduction)

	Capital reduction + Rights issue	Like-for-like (i.e., without capital reduction)
CMP/ TERP (1)	**21.30**	**27.82**
NOSH	48	63
MC	1,027	1,753
Cap hike (25m shares @ SAR 10)	249	249
New MC	1,276	2,002
new NOSH	73	96
New value / share	17.45	20.96
Value right	2.54	3.05
New TERP (2)	**19.99**	**24.00**
Adjustment factor 1	1.3061	
Adjustment factor 2	0.8194	
Placement discount to TERP (1)	**-53.1%**	
Placement discount to TERP (2)	**-50.0%**	

Source: Company Data, Arqaam Capital Research

Exhibit 53: Appendix – HVAC and HA segments' details

(SARm)	FY18A	FY19A	FY20A	FY21A	FY22e	FY23e	FY24e	FY25e
HVAC								
HVAC product sales (SARm)	416	496	461	524	576	610	647	683
y/y g (%)	*N/A*	*19.2%*	*(7.0%)*	*13.6%*	*9.9%*	*6.0%*	*6.0%*	*5.6%*
Units sold	142,547	159,942	148,144	169,776	178,807	185,849	192,604	198,721
y/y g (%)	*N/A*	*12.2%*	*(7.4%)*	*14.6%*	*5.3%*	*3.9%*	*3.6%*	*3.2%*
Avg rev/unit (SAR)	2,919	3,102	3,115	3,086	3,221	3,284	3,359	3,439
y/y g (%)	*N/A*	*6.2%*	*0.4%*	*(0.9%)*	*4.4%*	*2.0%*	*2.3%*	*2.4%*
Avg GPM (%)	*7.6%*	*15.8%*	*18.5%*	*19.9%*	*20.7%*	*21.0%*	*21.2%*	*21.5%*
HA								
HA product sales (SARm)	199	231	319	397	448	498	546	590
y/y g (%)	*N/A*	*15.8%*	*38.3%*	*24.5%*	*12.9%*	*11.1%*	*9.7%*	*8.1%*
Units sold	241,176	311,700	364,724	348,883	384,539	416,887	445,562	469,653
y/y g (%)	*N/A*	*29.2%*	*17.0%*	*(4.3%)*	*10.2%*	*8.4%*	*6.9%*	*5.4%*
Avg rev/unit (SAR)	826	740	874	1,138	1,166	1,195	1,226	1,257
y/y g (%)	*N/A*	*(10.4%)*	*18.2%*	*30.2%*	*2.4%*	*2.5%*	*2.6%*	*2.5%*
Avg GPM (%)	*14.1%*	*20.2%*	*23.5%*	*22.6%*	*22.9%*	*23.6%*	*23.9%*	*24.3%*

Source: Company Data, Arqaam Capital Research

Exhibit 54: Appendix - Shaker has an experienced management team

Team	Title	Experience / profile
Mohammed Ibrahim Abunayyan	CEO	15+ Years of experience. Board member at Abunayyan Group & General Manager in retail and wholesale in pharmaceuticals and medical supplies, LG Factory Operations and Quality & Chief Strategy & Transformation officer at Shaker Group.
		Strategic Planning from London Business School / INSEAD Business School
Mazen Elghafeer	Finance VP	20+ years of experience in financial planning & analysis, reporting & M&A
		EMBA Oxford University & master's degree in accounting from Wayne State University & CMA
Park Byeongwoo	Marketing VP	35+ years of experience in sales & business management of LG Products globally
		Bachelor of Electronics from Korea University
Mohamad El Dada	B2C Sales VP	30+ experience in Sales & Marketing of Consumer Electronics & Home Appliances
		Executive MBA Degree from LAU, Beirut (emphasis on Marketing & Finance)
Eunjung Jun	B2B Sales VP	25+ years' experience in electric, electronics, tele-communication & HVAC B2B business in LG Electronics Inc.
		MBA Degree from Helsinki School of Economics
Firas Al Youssef Sayegh	Strategy & Shared Services Director	10+ Years of experience in Strategy & Turnarounds within automotive, manufacturing, FMCG and consumer retail/wholesales industries.
		MBA degree from University of California Riverside (UCR) and BBA in International Business from Lebanese American University, Beirut
Hazem El Samanody	Supply Chain Director	15+ years of end-to-end experience in Supply Chain
		Master's degree in International Transportation & Logistics Management from Arab Academy of Science Technology & Marine Transportation
Roy Yeo	Aftersales Service Director	15+ years in service operation in Korea and Africa
		Bachelor Degree in Mechanical Engineering

Source: Company Data, Arqaam Capital Research

Risks to our investment case/valuation

Global supply chain congestion/higher freight costs: Although Shaker manufactures most of the AC products locally via the LG Shaker facility, it imports raw material and other components from the LG parent company in Korea. Moreover, home appliances products are majorly imported from Europe, China, and Thailand. Prolonged supply shortages could hamper Shaker's ability to cater to local demand, while margins could likely shrink on increased freight charges/input costs.

Interest rate risk: The US Fed is expected to hike rates to c 3.7% this year, with long-term rates at 2.5%. Every 50bps hike in rates annually would reduce our EPS by an average 3.9% and TP by 4.5% (on a higher WACC). However, we have already factored in higher borrowing rates.

Exhibit 55: EPS / TP impact – interest rate change vs. base case

	Change in interest rate vs. base case					
	(-) 150 bps	(-) 100 bps	(-) 50 bps	(+) 50 bps	(+) 100 bps	(+) 150 bps
Avg EPS impact (%)	11.7%	7.8%	3.9%	(3.9%)	(7.8%)	(11.7%)
TP impact (%)	16.0%	10.2%	4.9%	(4.5%)	(8.6%)	(12.3%)

Source: Company Data, Arqaam Capital Research

Limited FX risk, mainly from EUR: Some of the company's products are imported in foreign currency (directly and indirectly) from outside sources (particularly in US dollars and European euros). While SAR is pegged against USD, and a strengthening of the EUR lift COGS and margins.

Credit risk/capital tied up in working capital: The company generates >90% of its revenue via corporate/B2B customers (retailers). The business model runs on high working capital (150 days), and customers' inability to pay on time would force Shaker to increase ST borrowing/credit facilities, followed by higher interest expense.

Potential delays or discontinuation of Saudi government's mega projects: Shaker is bidding for HVAC projects with a pipeline of > SAR 1 bn under Saudi government Giga projects, including Neom, Amaala, and Red Sea among others. Any delay or discontinuation of these projects could hold up the projected revenue growth.

MS share loss on increased competition/introduction of energy efficient models by peers: LG was among the pioneers to introduce energy efficient inverter technology in Saudi. The new product was expensive (price difference with other players c.20-25%) with consumer's reluctance to switch to new technology. SASO regulation was introduced in 2019, raising the efficiency bar for all electric appliances, which was followed by several Chinese players upgrading their products. Similarly, Gree (2nd largest AC player in the KSA) had introduced inverter technology with a price difference vs. Shaker at only 3-5% (vs. 20-25% previously). Increased competition (on inverter technology) with limited price gap could be a potential threat to Shaker's market position, potentially leading to discounts/price war at the expense of GPm.

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