



SHUAACAPITAL_{PSC}

NSCSA (4030.SE)

Equity Research

Initial Coverage

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Sector Coverage Team

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Current Price:	SAR 16.75	Country:	KSA
Fair value Target:	SAR 25.05	Sector:	Shipping / Transportation
Recommendation:	BUY	Exchange:	Tadawul stock exchange

- National Shipping Company of Saudi Arabia (NSCSA) is a shipping company involved in the transportation of crude oil, chemicals and general cargo, as well as the transportation of LPG as a result of a recent acquisition. The company has a total fleet of 27 vessels, which it plans to double over the next five years at a cost of over SAR 5 bn.
- Crude oil transportation currently represents the highest component of the company's revenues, as well as the highest margins. However, it is also the most volatile component as it is dependant on volatile global chartering rates, which today are at around their four year low. We believe that the next few years chartering rates will remain under pressure, however starting 2010 we believe that transportation capacities will decrease driving chartering rates higher.
- We expect the company's net profits to reach SAR 463 mn in 2007, dropping to SAR 309 mn in 2008 before recovering substantially to reach SAR 538 mn in 2010. The negative earnings trend that is expected to affect the industry as a whole over the next year may be a constraint on NSCSA towards realizing our target value in the short term.
- We initiate coverage on NSCSA with a BUY recommendation based on fair value estimate of SAR 25.05 per share, implying an upside potential of 49.5% to the current market price of SAR 16.75 per share. The valuation was based on a weighted average of two valuation methods.

Year	Net profit (SAR' 000)	BV (SAR' 000)	EPS (SAR)	BVPS (SAR)	RoAE (%)	P/E (x)	P/BV (x)
Dec-09E	358,260	5,030,104	1.11	15.97	6.96	14.7	1.0
Dec-08E	309,007	4,844,593	0.96	15.38	6.23	17.1	1.1
Dec-07E	463,427	4,684,586	1.44	14.87	9.67	11.4	1.1
Dec-06	451,837	3,004,619	1.96	13.35	14.69	11.7	1.3

52-week range (SAR)	15.75 - 52.75
Number of shares ('000')	315,000
Free Float (%)	71%
Market cap (SAR' 000)	5,276,250
Market cap (USD' 000)	1,406,737
Div. Yld. 2006 (%)	0.00%

Source: Reuters, SHUAA Capital

NSCSA vs. SC SAUDI Index



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Investment highlights

- National Shipping Company of Saudi Arabia (NSCSA) is a shipping company involved in the transportation of crude oil, chemicals and general cargo, as well as the transportation of LPG as a result of a recent acquisition.
- NSCSA has a total fleet of 11 Very Large Crude Carriers (VLCC), 12 chemical tankers and four Roll-on Roll-off (RoRo) vessels. The company has embarked on a long term expansion plan to double the size of its fleet at a cost of over SAR 5 bn, 30% of which will be funded through equity, most of which was raised in a recent capital increase, and the remaining 70% is to be funded through debt as per our estimates.
- Crude oil transportation currently represents the highest component of the company's revenues, as well as the highest margins. However, it is also the most volatile component as it is dependant on volatile global chartering rates, while other business lines represent a more stable component due to less volatile rates, and the prominence of long term contracts.
- The earnings are driven by the fleet size, but mainly steered by chartering rates. Today, shipping rates for crude oil are at around their four year low as a result of lower oil demand and excess vessel capacity supply. We believe that the next few years chartering rates will remain under pressure; however, starting 2010 as the IMO regulation of phasing single hulled vessels goes through, we believe that transportation capacities will decrease driving chartering rates higher.
- We project lower revenue per vessel in 2008 on the back of weak chartering rates especially those of VLCCs. The gross profit margin from the company's VLCC fleet is expected to drop from 48% in 2006 to 40% and 42% in 2008 and 2009 respectively. We expect net profits to reach SAR 463 mn in 2007, dropping to SAR 309 mn in 2008 before recovering substantially to reach SAR 538 mn in 2010.
- Our valuation on NSCSA reflects our views on the company over the medium and long term, and how the company has positioned itself to take advantage of the positive market opportunities specific to the Gulf market. However, the negative earnings trend that is expected to affect the industry as a whole over the next year may be a constraint on NSCSA towards realizing our target value in the short term.
- We initiate coverage on NSCSA with a BUY recommendation based on fair value estimate of SAR 25.05 per share, implying an upside potential of 49.5% to the current market price of SAR 16.75 per share. The valuation was based on a weighted average of two valuation methods.

Company overview

***NSCSA started in 1978
developing national shipping
line focused on cargo routes***

The National Shipping Company of Saudi Arabia (NSCSA) was established in 1978 to develop a national shipping line that could compete with foreign carriers for business on the busy cargo routes to the Red Sea and the Gulf. With that in mind, the company initially focused on cargo routes and invested in a fleet of roll-on, roll-off (Ro-Ro) vessels. The company's operations of liner trade today extend between North America, Europe, Middle East and India through its current existing fleet of four Ro-Ro vessels.

NSCSA has also invested in on-land facilities, including a container storage and repair yard in Jeddah Islamic Port, the largest and most important of the kingdom's ports. It has also to construct a new head office in Riyadh.

***In mid 1980's started
diversifying into chemical
transportation through
the establishment of ACC***

The liner activity proved to be very competitive in the 1980s due to the fall in global oil prices, and the subsequent decline in the value of imports into Saudi Arabia. By the mid 1980's the company started to diversify from the cargo and liner trade to the transportation of chemicals by operating two chemical tankers, one through the establishment of Arabian Chemical Carriers Company (ACC) 50:50 joint venture with United Arab Shipping Company which had owned one chemical tanker and another on its own. NSCSA early this year sold its stake in ACC for SAR 23.4 mn and concentrated its chemical tanker business in National Chemical Carrier (NCC), in which it retains an 80% controlling stake.

***NCC a 80:20 joint
venture with SABIC was
established in 1990***

NSCSA had entered into an 80:20 joint venture with Saudi Arabia Basic Industries Corporation (SABIC) by establishing NCC in 1990. NCC is the core contributor to NSCSA's chemical transportation revenues through a fleet of 12 chemical tankers serving about 150 ports worldwide. A further 20 chemical tankers are under construction to be delivered between September 2007 and November 2011. Six vessels in the current fleet of 6 are operating in the Odfjell Seachem pool with the remaining 6 vessels operating through a long Time Charter Agreement with SABIC. NCC's strategy is to gradually become a global player with a more diversified revenue stream.

***Diversifying into
transportation of
crude oil in 1996***

In 1996 NSCSA began its foray into crude oil transportation, and by 2005 it had also got into LPG transportation by acquiring a 30.3% stake in Petredec for USD 50 mn. Today, oil transportation is the major source of the company's income. The company today operates 10 Very Large Crude Carriers (VLCCs), half of which are on time charter with Vela International, a subsidiary of Saudi Aramco and Euronav for a period between three to five years with an option to extend the charter further for another three years. NSCSA also has placed orders with Hyundai Heavy Industries for the construction of another six VLCCs to be delivered between 2008 and 2009.

A well diversified product transportation offering, NSCSA transports supplementary sources of energy that are a necessity, both oil and LPG. When the demand for oil decreases due to spikes in oil prices, the demand of the LPG as an alternative source of energy and heating should increase. This is perceived to maintain a stable flow of income throughout the cyclicity of either source of energy.

Subsidiaries & non-consolidated affiliates

Name	Country	Holding
Mideast Ship Management	UAE	100.00%
NSCSA Incorporation	United States	100.00%
National Chemical Carriers	Saudi Arabia	80.00%

Source: NSCSA, SHUAA Capital

Name	Country	Holding
Petredec	Bermuda	30.30%

Source: NSCSA, SHUAA Capital

About MIDEAST Ship Management

Mideast Ship management was established in the UAE in 1996 as a joint venture between NSCSA and Acomarit Group of the UK with the aim of becoming one of the major ship managers of the world.

NSCSA owns fully mideast ship management, which is mainly involved in managing full fleet of NSCSA

In 2005, NSCSA took full ownership of Mideast Ship Management, which is now mainly involved in managing all the vessels owned by NSCSA and NCC, including one chemical tanker that is time chartered to SABIC. Their services extend to resolving challenging problems to reduce costs and delays, managing ship performance, site supervision for new ship buildings and working on behalf of ship-owners with insurance brokers to ensure that insurance claims are handled in the most beneficial way.

About National Chemical Carriers (NCC)

National Chemical Carriers (NCC) was established in 1990 with a capital of SAR 500 mn, as an 80% to 20% venture between NSCSA and SABIC respectively, followed in 2006 by an increase in capital to SAR 610 mn. The company owns a fleet of 12 tankers with a capacity of over 460,000 dwt on pool and time charter basis serving over 150 ports worldwide.

As part of its expansion plans, the company placed new construction orders with South Korean "Hyundai Mipo Dockyard" and "SLS Shipbuilding" for an additional 20 chemical tankers; this will bring an additional capacity of over 900,000 dwt between 2007 and 2011, to reach a total capacity of nearly 1.5 mn dwt.

About Petredec

Petredec is a leading liquefied petroleum gas (LPG) trader and ship-owner headquartered in Monaco with offices in Singapore, London and Barbados. It controls a fleet of over 71 vessels under operations and 6 vessels on order aggregating approximately 250,000 cbm.

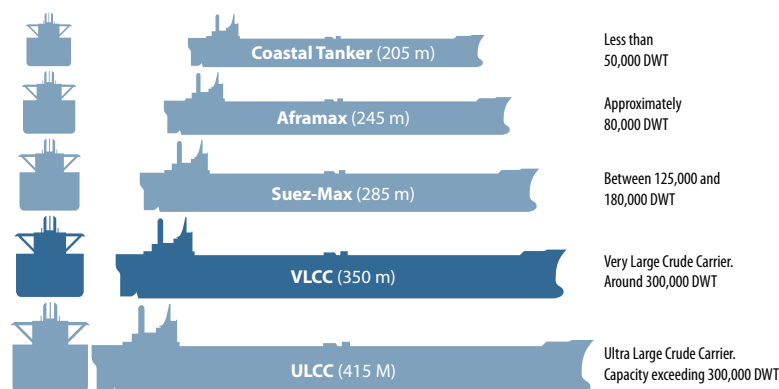
An investment in LPG trade and ship owner Petredec gives NSCSA the opportunity to become a shipping and trading leader in the region

Given the positive outlook of liquefied gas trade out of the Gulf, NSCSA's investment in Petredec is an opportunity for the company to become a market leader in the shipping and trading of LPG in this region. This transaction is the first venture of NSCSA into gas transportation, and its first major investment outside the region.

Services and Fleet:

Crude oil transportation

Several types of tankers are used to transport oil; VLCCs are mainly used from the Middle East in high volumes (more than 2 million barrels per ship) and over long distances (Europe and Pacific Asia). Shorter journeys are generally serviced by smaller tanker ships such as from Latin America (Venezuela and Mexico) to the United States.



Sizes range from a 205 meter Coastal Tanker to a 415 meter ULCC. It is worth noting however that the volume that can be carried by a ship increases as function of the cube of its length. For example, a 415 meter ULCC can carry 8 times the size of the 205 meter Coastal Tanker (50,000 tons compared to 400,000 tons.)

Crude oil transportation is the major source of income for NSCSA, with almost 43% of total revenues in 2006 generated from crude oil transportation. In addition, gross profit margins are higher than other transportation related services reaching almost 45%. The company as of date owns 10 VLCCs with a capacity of 300,000 dwt each, all of which are double hulled, double bottomed IMO compliant vessels.

**Balanced strategy
between spot and time
charter of its VLCC fleet**

NSCSA operates vessels on spot and time charter basis, depending on the spot market conditions and shipping market outlook. However, their strategy involves having a balance between both spot and time charters based on a 50% to 50% up to 60% to 40% based on outlook in an attempt to maximize the profits of the company and shareholders returns.

**6 of 11 operating
VLCC's are chartered
out on time basis**

Of the existing fleet of 11 VLCC tankers, NSCSA charters out six VLCCs on time basis, three of which are chartered out to Vela International, a subsidiary of Saudi Aramco, and two to Euronav and one to Hanjin Shipping. The remaining four are operated on spot basis to various clients.

Below are details of the VLCC fleet:

VESSEL NAME	TYPE	BUILT	SHIPYARD	DTW
Ramlah	Oil tanker	Jan 1996	MHI, Japan	300,361
Ghawar	Oil tanker	Apr 1996	MHI, Japan	300,361
Watban	Oil tanker	Aug 1996	MHI, Japan	300,361
Hawtah	Oil tanker	Oct 1996	MHI, Japan	300,361
Safaniyah	Oil tanker	Jan 1997	MHI, Japan	300,361
Harad	Oil tanker	Oct 2001	Samsung, Korea	302,700
Marjan	Oil tanker	Feb 2002	Samsung, Korea	302,700
Safwa	Oil tanker	May 2002	Samsung, Korea	302,700
Abqaiq	Oil tanker	Oct 2002	Samsung, Korea	302,700
Wafrah	Oil tanker	Feb 2007	HSHI, Korea	318,000
Iayla	Oil tanker	Aug 2007	HSHI, Korea	318,000

Source: NSCSA, SHUAA Capital

NSCSA orders placed with Hyundai – Samho Heavy Industries to build six addition VLCCs of 318,000 dwt each to be delivered between 2008 and 2009; these are part of their expansion strategy in the crude oil transportation. Below are the details of the VLCCs under order. The company's aim is to reach around 20 VLCCs by 2010 with a total capacity of over 6.5 million dwt.

VESSEL NAME	TYPE	BUILT	SHIPYARD	DTW
VLCC 1	Oil tanker	Sep-08	Hyundai Heavy Industries	317,000
VLCC 2	Oil tanker	Oct-08	Hyundai Heavy Industries	317,000
VLCC 3	Oil tanker	Mar-09	Hyundai Heavy Industries	317,000
VLCC 4	Oil tanker	Apr-09	Hyundai Heavy Industries	317,000
VLCC 5	Oil tanker	Jul-09	Hyundai Heavy Industries	318,000
VLCC 6	Oil tanker	Sep-09	Hyundai Heavy Industries	318,000

Source: NSCSA, SHUAA Capital

Liquefied petroleum gas transportation

After NSCSA's acquisition of 30% interest in Petredec a leading liquefied petroleum gas (LPG) trader and ship-owner, with a controlled fleet of over 71 vessels in operations and six vessels on order aggregating approximately 253,000 cbm; a new source of associated operating revenues has been introduced.

As at October 2006, NSCSA's share of Petredec profits was estimated to be at SAR 86.19 mn versus a share of SAR 43.34 mn in 2005. Relative to what NSCSA invested in Petredec in 2005, the pay back period is expected to be around 2.5 years.

NSCSA share of Petredec profits represent almost 20% of its net profits as at 2006. Gas transportation combined with the contribution of crude oil transportation are the highest contributors to the company's net profits. The combined contribution represents almost 70% of the company's total net profits.

***Investment in Petredec
first step towards a goal to
become a global operator***

NSCSA's investment in Petredec is the first step towards a goal to become a global operator, and a regional market leader in the shipping and LPG trading business. This transaction fits well within the company's strategy, while being their first investment outside the region, and their first investment in the LPG shipping business. This should give NSCSA additional expertise and knowledge in new markets and should broaden their knowledge in the LPG shipping business in particular; a product that is witnessing substantial growth in production out of the Gulf region.

Chemical transportation

Chemical transportation represents almost 31% of the total company's revenues as at the end of 2006. Gross margins for this business line have historically been lower than that of the VLCC business, driving heavier investment into increasing the capacity of the oil transportation business at NSCSA at this time. However, due to the cyclicity of the shipping business, this revenue line offers a degree of diversification, as well as a secure revenue component generated by long term time charter contracts and positive outlook for chemical shipping markets going forward, especially out of the Gulf region which is consistently increasing its share of the global production and export of chemicals.

***NCC's operates 12
tankers, partly chartered
on time basis***

The company's chemical transportation revenues are generated through its 80% interest in NCC. Their fleet today consists of 12 operational IMO compliant chemical tankers, partly chartered on time charter basis and the remainder on spot basis, of which four are chartered out on long term contract to their 20% stake holder partner SABIC. Details of the fleet are below:

VESSEL NAME	TYPE	BUILT	SHIPYARD	DWT
Arar	Chemical Tanker	1982	Daewoo, Korea	23,000
Asir	Chemical Tanker	1982	Daewoo, Korea	23,000
Baha	Chemical Tanker	1988	Astilleros, Spain	24,700
Mekka	Chemical Tanker	1995	Kvaerner, Norway	37,500
NCC Riyad	Chemical Tanker	1995	Kvaerner Govan Scotland	37,500
NCC Jubail	Chemical Tanker	1996	Kvaerner, Norway	37,500
NCC Najd	Chemical Tanker	2005	Hyundai Mipo	46,200
NCC Hijaz	Chemical Tanker	2005	Hyundai Mipo	46,200
NCC Tihama	Chemical Tanker	2006	Hyundai Mipo	46,200
NCC Abha	Chemical Tanker	2006	Hyundai Mipo	46,200
NCC Tabuk	Chemical Tanker	2006	Hyundai Mipo	46,200
NCC Qassim	Chemical Tanker	2006	Hyundai Mipo	46,200

Source: NSCSA, SHUAA Capital

The fleet that is under construction will add on a capacity of 900,000 DWT to the existing capacity available. Of which some will be chartered out on time terms to SABIC. The details of the chemical tankers that are under construction are as follows:

VESSEL NAME	TYPE	BUILT	SHIPYARD	DWT
NCC Rabigh	Chemical Tanker	Sep 2007	Hyundai Mipo	46,200
NCC Sudair	Chemical Tanker	Nov 2007	Hyundai Mipo	46,200
NCC Dammam	Chemical Tanker	Jan 2008	Hyundai Mipo	46,200
NCC Hajel	Chemical Tanker	Apr 2008	Hyundai Mipo	46,200
Skeleton 490	Chemical Tanker	Apr 2009	SLS Shipbuilding	45,000
Skeleton 491	Chemical Tanker	Jul 2009	SLS Shipbuilding	45,000
Skeleton 492	Chemical Tanker	Sep 2009	SLS Shipbuilding	45,000
Skeleton 493	Chemical Tanker	Nov 2009	SLS Shipbuilding	45,000
Skeleton 494	Chemical Tanker	Jan 2010	SLS Shipbuilding	45,000
Skeleton 495	Chemical Tanker	Mar 2010	SLS Shipbuilding	45,000
Skeleton 500	Chemical Tanker	May 2010	SLS Shipbuilding	45,000
Skeleton 501	Chemical Tanker	Jul 2010	SLS Shipbuilding	45,000
Skeleton 508	Chemical Tanker	Sep 2010	SLS Shipbuilding	45,000
Skeleton 509	Chemical Tanker	Nov 2010	SLS Shipbuilding	45,000
Skeleton 536	Chemical Tanker	Jan 2011	SLS Shipbuilding	45,000
Skeleton 537	Chemical Tanker	Mar 2011	SLS Shipbuilding	45,000
Skeleton 538	Chemical Tanker	May 2011	SLS Shipbuilding	45,000
Skeleton 539	Chemical Tanker	Jul 2011	SLS Shipbuilding	45,000
Skeleton 540	Chemical Tanker	Sep 2011	SLS Shipbuilding	45,000
Skeleton 541	Chemical Tanker	Nov 2011	SLS Shipbuilding	45,000

Source: NSCSA, SHUAA Capital

General cargo transportation

The diversity of Ro-Ro vessels give NSCSA the flexibility to address demand for break-bulk, projects, military and containerized cargoes. NSCSA foresees a continued demand for specialized Ro-Ro vessels in light of industrialization in the Middle East, continued trade growth and infrastructure development. However the fleet in this business line remains small and quite old. The company's cargo vessel fleet is as follows:

Vessel name	Type	Year built	Flag	TEU
Saudi Abha	RoRo container	Jan 1983	KSA	2310
Saudi Tabuk	RoRo container	Oct 1983	KSA	2310
Saudi Hofuf	RoRo container	Jun 1983	KSA	2310
Saudi Diriyah	RoRo container	Mar 1983	KSA	2310

Source: NSCSA, SHUAA Capital

In the year 2002, NSCSA established a Global Freight Forwarding and NVOCC (non-vessel operating common carriers) unit, which is a type of sea freight forwarding business. Instead of using their own ships, they operate as transportation or logistics intermediaries. This was mainly established to serve comprehensive customer needs for logistics services, including warehousing, transportation and custom clearing.

Also, in an effort to meet its commitments and promote better service by minimizing loading, handling and operating trade related costs, the company invested in 120,000 sq m container storage and yard in Jeddah Islamic Port, Saudi Arabia's largest port.

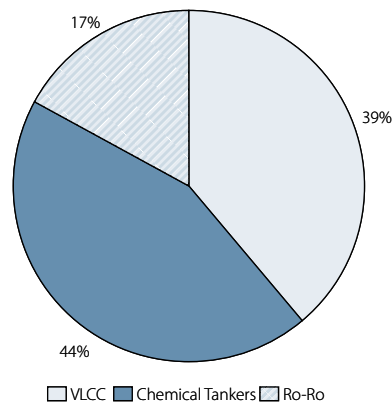
Clients one stop shop

Ship management

NSCSA provide ship management services through its subsidiary MIDEAST which was established in 1997. The company manages as of today a variety of vessels including VLCCs, chemical tankers and RoRo vessels. The aim is establishing a one stop shop for their clients, including technical and commercial management. The company also provides marine consultancy, and work on behalf of ship-owners with insurance brokers to ensure that insurance claims are handled in the most beneficial way.

Managed Fleet portfolio based on number of vessels

Mideast Ship Management managed fleet



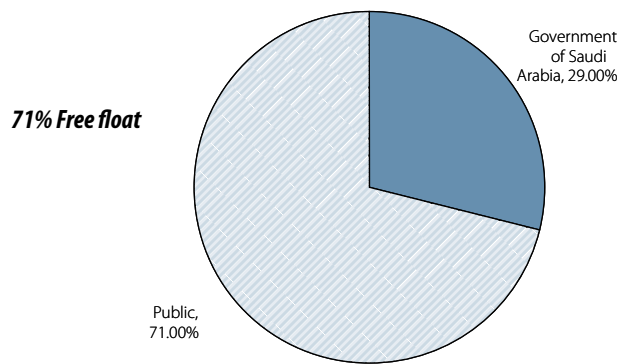
Source: NSCSA, SHUAA Capital

Ownership Structure

NSCSA is publicly listed company with the government of Saudi Arabia owning 29%, while the remainder is free float. The company raised its capital early this year by an additional SAR 900 mn via a rights issue.

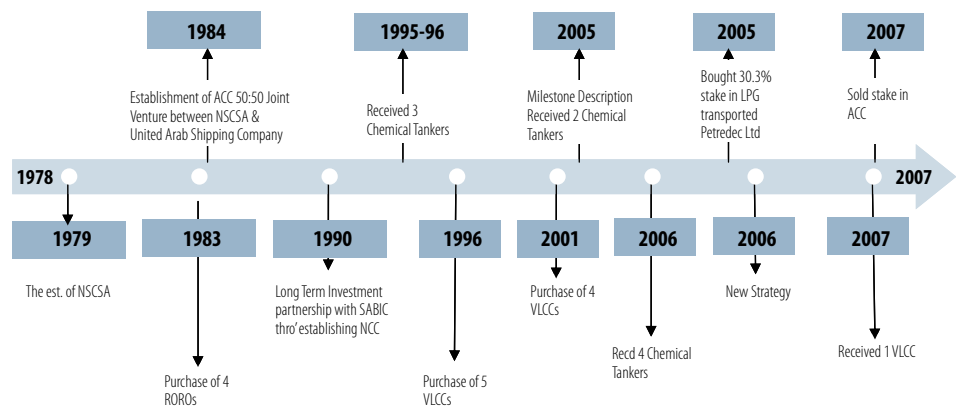
The proceeds from the offering are to be directed towards the implementation of the company five year strategy plan to finance the expansion of its operations by increasing its fleet size in all business transportation units including crude oil, chemical, gas and the liner business, in an effort to address booming energy and general trade flows from and to Saudi Arabia and the region.

Ownership Structure



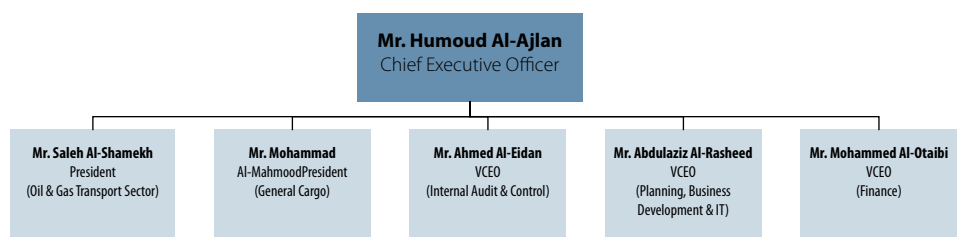
Source: NSCSA, SHUAA Capital

Timeline



Source: NSCSA, SHUAA Capital

Management



Source: NSCSA, SHUAA Capital

Key operational data

	Dec-05	Dec-06	Dec-07*
Number of VLCC at year end	9	9	11
Capacity of VLCC (dwt)	2,708,050	2,712,605	3,666,605
Contribution to total revenue	41.1%	42.9%	45%
Gross profit margin of VLCC	50.6%	47.5%	49%
Number of chemical tankers	11	12	14
Capacity of chemical tankers (dwt)	359,600	460,400	444,600
Contribution to total revenue	30.6%	27.2%	26.5%
Gross profit margin of chemical tankers	16.9%	15.9%	15.3%
Number of RoRo at year end	4	4	4
Capacity of RoRo at year end (dwt)	170,400	170,400	170,400
Contribution to total revenue	28.3%	29.9%	28.4%
Gross profit margin of RoRo	23.2%	16.7%	15.4%
Other Related Income mainly Petredec (SAR '000)	46,249	90,815	72,652
Net Profits (SAR '000)	450,855	451,837	463,427
Total assets (SAR '000)	4,834,197	5,997,106	7,934,838
Shareholder's equity (SAR '000)	2,600,817	3,004,619	4,684,586
Shares outstanding ('000)	40,000	225,000	315,000
ROE	16.8%	14.7%	9.7%

* Estimated for year end

Source: NSCSA, SHUAA Capital

Strategy

Corporate strategy

NSCSA's long-term strategy is to fulfill its growth ambitions by strengthening international alliances as well diversifying the company's portfolio to reduce the company's operational risk and increase its global reach.

The developments aim to "make NSCSA well-entrenched as a leading shipping company not only at the regional level but also at the international level as well".

**Massive expansion plan
to double its fleet over
the next five years**

NSCSA has drawn up a five-year development strategy which calls for massive expansion plans, which mainly concentrates on aggressive growth in its three main business sectors; transportation of crude oil, petrochemicals and general cargo. This plan will require the company's capital structure to be re-engineered, by increasing the company's capital. NSCSA aims to raise funds through both capital as well as debt financing.

**Expansion costs are
over SAR 5bn of which
25% targeted through
equity funding**

As implementation of the plan, six VLCCs have been ordered to be delivered between 2008 and 2009. In addition, two VLCCs are due for delivery in 2007. Also three other VLCCs are under consideration for either construction or for buying from secondary markets. Also the expansion plan involves constructing or buying off of the secondary market four RoRo vessels. The cost for the aforementioned will be approximately SAR 5.16 bn, 25% of which will be funded through equity while the remaining SAR 3.87 bn will be funded through debt.

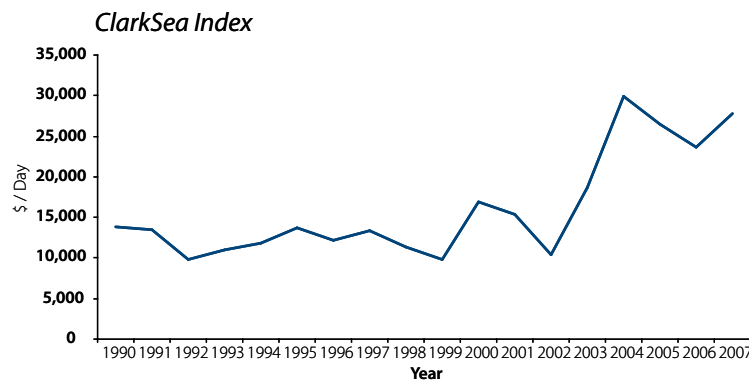
The expansion plan not only involves the expanding of the fleet size but also entering new markets. NSCSA has acquired 30.3% percent shareholding in the Bermuda-based LPG trader and ship-owner Petredec Limited by infusing \$50 million in capital. This fits well with the company's ambitions and strategy of becoming a global player and diversifying its service offerings.

Business Overview

The Shipping Industry:

The performance of the global shipping industry depends on the examined time frame. The more recent trend suggests a healthy growth in rates, with the Clarksea index reaching USD 29,000 per day in June 2007, and an average of USD 27,000 for 2007 to-date, compared to USD 26,400 and USD 23,600 per day on average in 2006 and 2005 respectively.

However, 2007 results are still lower than the average for the 2004, which at USD 29,800 was a long-term peak.



Projecting the outlook of the shipping industry is a difficult task since the industry is dependant on equilibrium of a demand and supply of a shipped good, and the demand for seaborne trade versus the available seaborne capacities that determine the chartering rates. There are many conflicting views on the outlook of the industry, with arguments that suggest that chartering rates will soon drop, while others suggesting that the industry is soon to witness a new high.

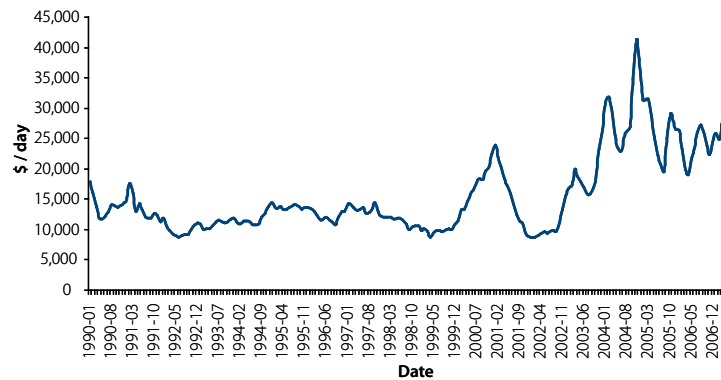
Around 90% of global trade flows are transported by sea

Shipping is a global industry and its prospects are closely tied to the level of economic activity in the world. A higher level of economic growth would generally lead to higher demand for finished products, intermediary products and raw materials, all of which has a direct impact of the size of international trade flows. Around 90% of global trade flows are transported by sea. However, the shipping market is cyclical in nature and freight rates generally tend to be highly volatile. This can be seen by looking at the fluctuation in the rates since 1998 in the graph below.

We have examined the Clarkson's Clarksea index shown in the graph below, and attempted highlighting a trend line and then extending a parallel line to draw a channel showing the upper bound and lower bound of the index value during each year since 2000. Our views suggest that should we smoothen the unusual behaviour of shipping rates during the peaks of 2000 and 2004; the shipping rates have been increasing steadily over the past seven years. This is in line with a period of strong global economic growth, and an associated strong growth in global trade activity.

Chartering rates changes due to imbalances between demand and supply capacities

Having said that, it is important to consider the imbalances of demand capacities versus supply capacities for seaborne trade; the extreme imbalances whether actual or expected are what causes the price hikes or drops in chartering rates.

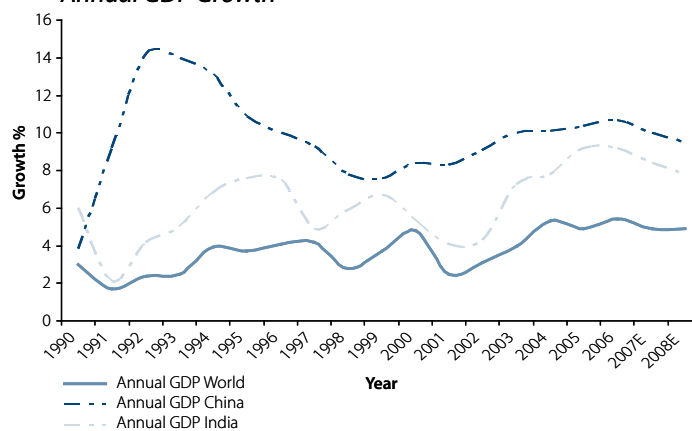
Clarksea Index

Source: Clarkson, SHUAA Capital

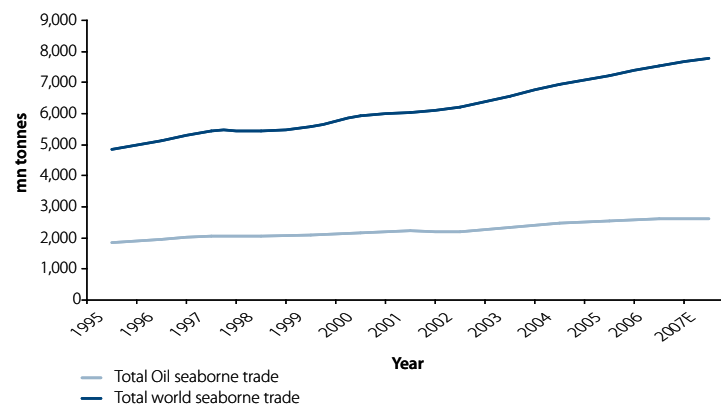
Our argument is backed up by the global economic picture, which seems to support an on-going bullish stance towards higher demand for seaborne trade going forward. The world Gross Domestic product (GDP) increased by 4.9% in 2006 and is expected to increase further more by a further 4.70% in 2007, supported by continuing strong growth in China and India, as well as in oil exporting countries. Seaborne trade will likely grow by a multiple of that.

High capital intensive industry

It is worth noting that the shipping industry is highly Capital intensive, therefore funding working capital requirements needs sufficient cash flows. The bargaining power of suppliers is continuously decreasing with the increase in the global fleet supply and intense competition, as well as the virtual commoditization of shipping capacity. This in turn gives increased bargaining power to the customers.

Annual GDP Growth

Source: Clarkson, SHUAA Capital

The Crude Oil Transportation Market**World Seaborne Trade**

Source: Clarkson, SHUAA Capital

More than 35% of the total seaborne trade is in oil and oil products. While total seaborne trade has been showing positive growth year on year, the oil and oil products seaborne trade has been growing at a slower rate decreasing its contribution to total sea trade from almost 40% in 1990's to its current levels of 35% of the total.

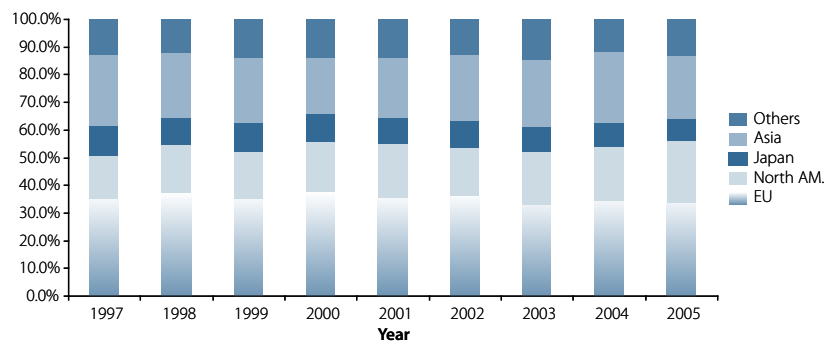
Industry Drivers

Demand in the industry is driven by the growth of trade and its geographical balance. Supply on the other hand is driven by new ship building orders as well as scrapping existing tonnage. Therefore freight rates and earnings of shipping companies are mainly a function of demand and available supply in the market. Currently, a degree of over supply in the tanker market has been exerting some pressure on freight rates, apart from the fact that scrapping has not been keeping pace with the increasing supply.

Main routes today are directed towards EU, America & Asia driven by GDP growth

Over 85% of the oil and oil products seaborne trade is directed toward EU, America and Asia, all of which are expected to witness healthy growth in GDP this year. Asia is expected to have a GDP growth of over 5%, of which India's GDP is expected to grow 7.3% and China at over 10%. China's economy, like many other industrial economies, is highly dependant on oil imports as their domestic oil field productions are increasing at less than 1%. Therefore any increase in the demand for oil and oil products is likely to be imported.

Global Seaborne oil products by import region

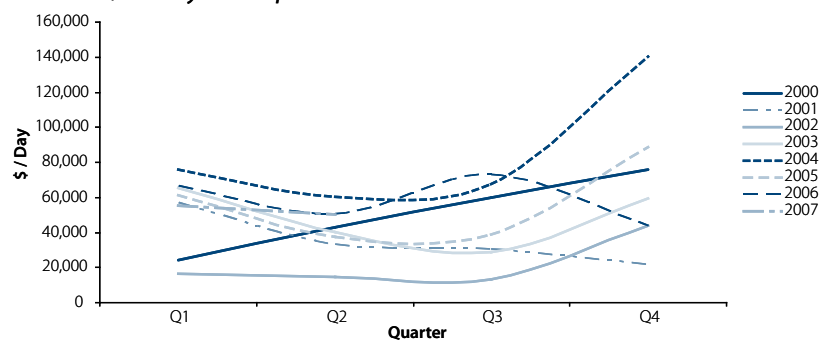


Source: Clarkson, SHUAA Capital

Given the above and given that GDP growth forecasts for emerging and high growing economies, we think that any increase in GDP will require increased demand for oil and oil products and therefore, increased seaborne trade.

A balance between the demand for oil and oil products seaborne trade and the available supply of capacities on tankers will determine the chartering rates which are the main drivers for shipping operators. The chartering rates are cyclical, depending on many factors, including weather conditions. Therefore, the chartering rates tend to be at their highest levels towards the northern hemisphere winter, i.e. towards the first and fourth quarters of the year.

Quarterly VLCC Spot Rates

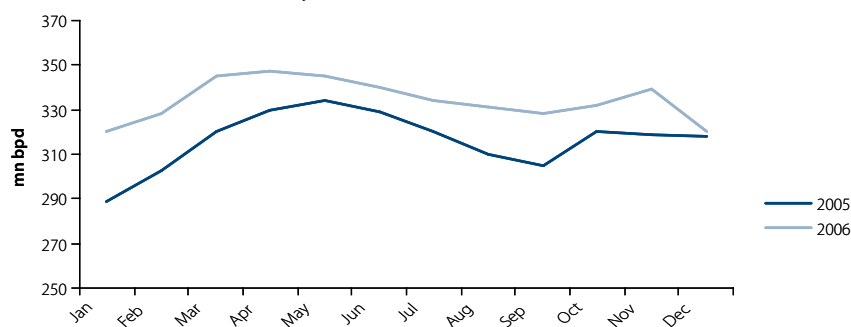


Source: Clarkson, SHUAA Capital

The graph above shows the chartering rates of each quarter since the year 2000. The chart supports the argument made above, although two years have displayed the opposite of that trend. Both the year 2001 and the year 2006 showed lower levels in fourth quarter, as both these years followed peak rate years.

The chartering rates for tankers witnessed pressure in 2006, not only due to the fact that it followed a peak year in 2004 and a year of high demand in 2005, but also because it was a year for lower oil and oil products demand resulting from high US inventories and a relatively warm winter. This put some pressure on demand at a time of expanding supply, and therefore reflected on chartering rates.

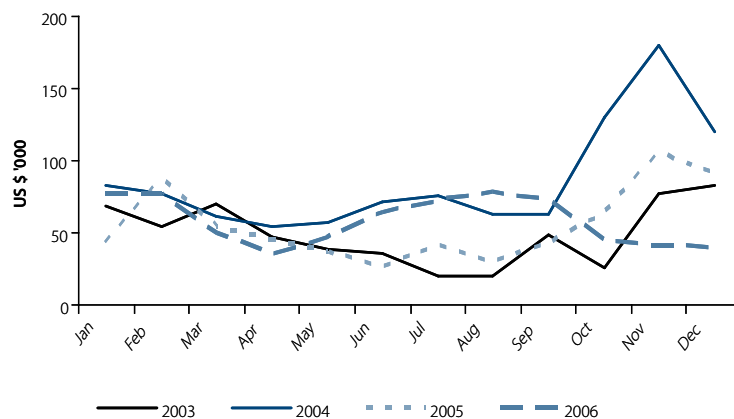
US Crude Oil Inventory



Source: Clarkson, SHUA Capital

Overall, in 2006 the average yearly chartering rates were higher than those of 2005 average rate by 3.8% but still lower than the record high for the year 2004. The weakness with regards to chartering rates in 2006 manifested in the last quarter, with rates down 32.6% compared to Q4 of 2005, and thereby denting the earnings of all crude oil shippers.

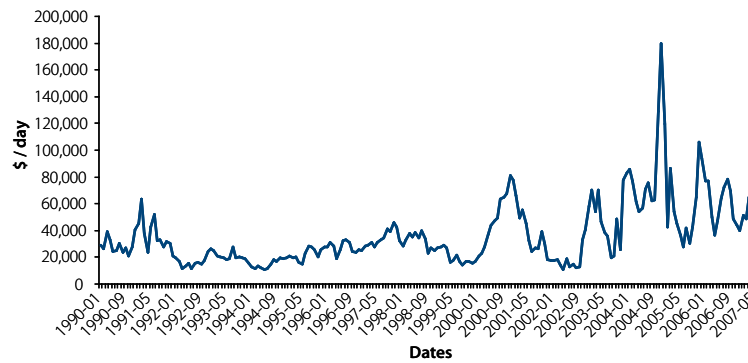
VLCC (early 90's) chartering rates per day



Source: Clarkson, SHUA Capital

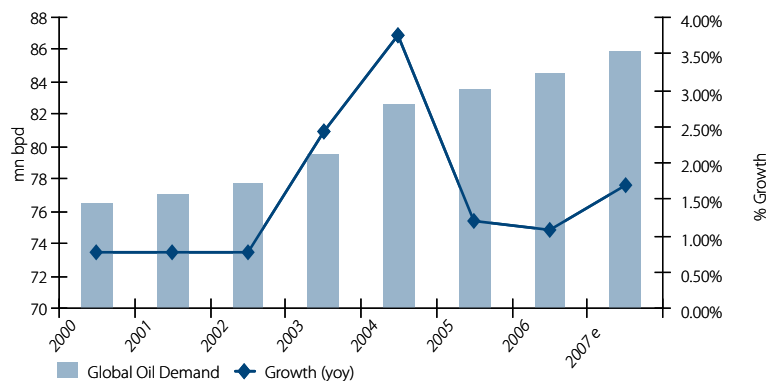
Chartering rates are almost at 4 year low

The year 2007 to-date has witnessed a further softening of rates. The average earnings of a 1990 built VLCC for end of Aug 2007 reached US \$31,500 per day, while the average for the first eight months in 2007 were US \$46,500 compared to an average of US \$62,900 per day for the first eight months of 2006. It is too early to assess the year on year average for 2007, as winter season is approaching and the effect on chartering rates are not yet clear.

VLCC Spot Rates

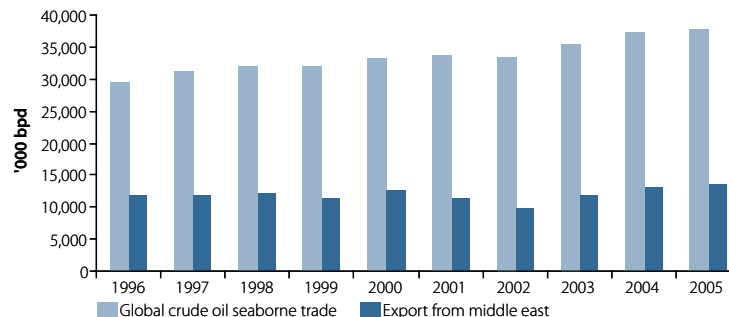
Source: Clarkson, SHUAA Capital

Global oil demand growth in 2006 was below the expected level of over 1.5%, the actual 2006 global oil demand in 2006 only came at 1.06% over that of 2005. This was mainly due to the decline in US inventories and a lower than expected growth rate for China. While some of the reduced demand in 2006 was associated with the US and China, other reasons are associated with weather conditions and more importantly the increasing switch to natural gas and electricity generation coal for heating.

Global Oil Demand

Source: Clarkson, SHUAA Capital

The consensus estimates for 2007 oil demand is remains positive though, as oil demand growth is expected to be 1.7% higher than that of 2006. However concerns arising from uncertainties surrounding the US economy and China have already lowered demand over the past three months.

Total Crude seaborne trade

Source: Clarkson, SHUAA Capital

Freight rates on average in 2006 were higher 3.8% than that of 2005. However towards the last quarter of the year the freight rates suffered mainly due to reduced crude oil exports from the Middle East after OPEC decided to cut supply resulting in surplus of vessel supply.

Year	EU OECD	North AM OECD	Asia OECD	Asia	Others	,000 bpd	% Chg	Middle East Long Haul	From Red Sea
1996	9,417	7,057	6,554	5,626	850	29,504	3.3	11,886	436
1997	9,730	7,559	7,086	5,919	918	31,212	4.5	11,817	426
1998	8,392	8,066	6,705	4,357	4,308	31,828	1.7	12,082	673
1999	7,902	8,218	6,732	4,153	4,958	31,963	-0.7	11,344	784
2000	8,065	8,545	6,801	4,914	4,933	33,258	7.6	12,533	334
2001	9,330	8,828	6,666	6,172	2,823	33,819	-2.1	11,420	300
2002	9,386	8,457	6,247	6,382	2,999	33,471	-3.7	9,860	334
2003	9,810	8,798	6,479	6,620	3,839	35,546	5.6	11,728	300
2004	10,170	9,002	6,523	6,959	4,496	37,150	4.5	13,024	300
2005	10,357	8,966	6,637	7,200	4,699	37,859	1.9	13,514	300

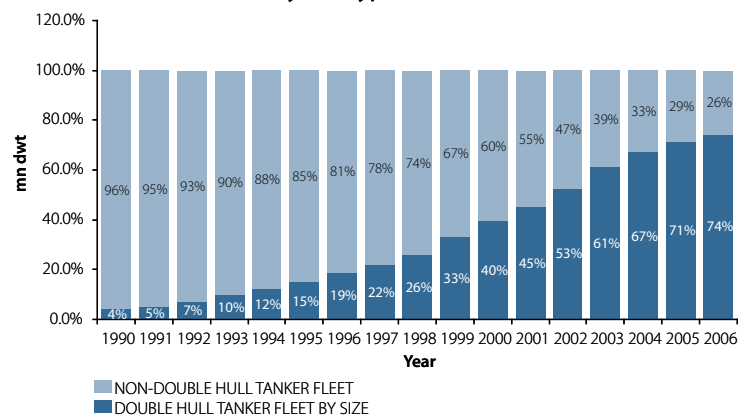
Source: Clarkson, SHUAA Capital

If the core demand / supply forces are still to determine the trend of the chartering rates for tanker markets, we expect that the chartering rates for the VLCC market should witness pressure to increase starting 2010 upon the phasing out of the single-hulled vessels as per the IMO requirements. We are anticipating either a very tight supply or a slight shortage in supply capacities at that point, which should push rates higher. Also this will increase the utilization and days in operations for other smaller tankers that might take part in the business as an alternative to VLCCs.

Single hulled vessels are almost 26% of total tanker capacities, those are expected to be phased out by 2010

Single hulled vessels capacities as a percentage of total tanker capacity has been decreasing regularly. In 1990 96% of total capacities was single hulled vessels, while by 2006 only 26% are of single hulled, accounting for almost 93.1 million dwt. These capacities are to be phased out within the next three years and substituted by double hulled vessels. Order books suggest that almost 110 million dwt will be substituted by the end of 2009, which given the increase in oil demand and demolition of old tankers will put supply capacities under pressure and should drive chartering rates higher. The chart below illustrates tanker fleet by hull type.

Total tanker fleet by hull type



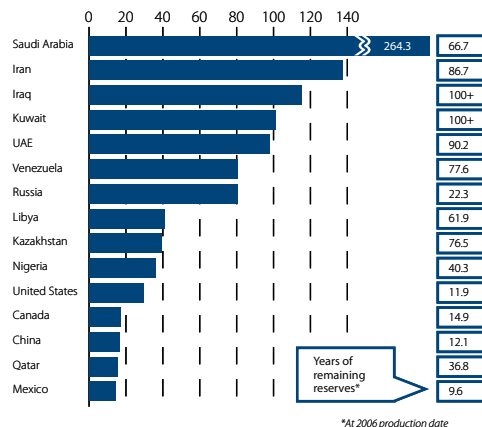
Source: Clarkson, SHUAA Capital

Oil reserves

The world's oil reserves that can be currently recovered from known oil fields using existing technology amount to a total of 1.2 trillion barrels. The top seven countries including Saudi Arabia, Iraq, Kuwait, and UAE hold almost three-quarters. The Middle Eastern domination reflects positively on the Middle Eastern shipping companies. Saudi Arabia has 261,700 million barrels of proven oil reserves, or 25% of the world's proven reserves.

Oil reserves

End 2006, barrels bn



Source: Economist

Global oil production amounts to around 83 million bbl/day. If last year's production rates were sustained, global oil reserves would run out in just over 40 years' time. America and China would have little over a decade of oil production left before their reserves were exhausted. By contrast, Kuwait's oil fields would last for more than a century.

However, the outlook on the VLCC market remains difficult to predict, despite the strong economic outlook and global growth and despite the phasing out of the single hulled vessels, which seems to be the play for 2010. There still remain some bearish views given the increased oil prices which might affect the profitability of tanker owners, the lower OECD exports, reduced OPEC output and continuing change in weather conditions that contribute to uncertainty regarding rates going forward.

The Chemicals transportation market

Chemical tankers have lower tonnage than crude oil and carry variety of different products

Most of the Global Chemical Trading that takes place occurs through the maritime industry. However it is critical to note that chemical trade is very different from other bulk shipping operations, such as crude oil. First of all, the tonnage involved with chemical transportation is smaller. Crude oil is shipped in huge ships carrying up to half a million tons at a time, whereas chemicals are shipped in relatively small amounts. Moreover, a crude oil tanker is usually dedicated solely to the carriage of crude oil. On the other hand, chemical carriers usually carry a variety of different products, with different properties. This however presents a multitude of difficulties and dangers.

Seasonality of rates

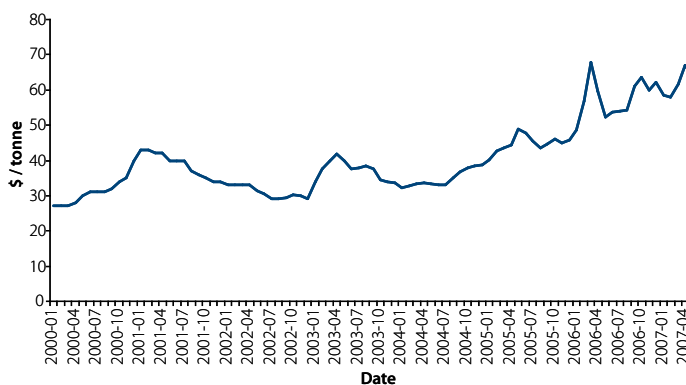
Chemical shipping rates tend to increase during the winter season, as a result of an active product tanker market and the de-stocking of inventories. The Chemical market like other markets are driven by macroeconomic factors, based on the forecasted 4.4% GDP growth, chemical shipping demand growth should continue to be sustained at its current levels.

China is expected to contribute significantly to chemical market

Again, China is expected to contribute to the sustainability of the market, given its expected robust economic growth. Asian markets continue to have a cost advantage, and therefore, continue to produce in large scale of products that require chemicals as feedstock, supporting the strong trade in chemicals.

On the other hand, change in regulations effective January 2007, regarding the shipping of veg oils on boards IMO II double hulled type vessels was expected to impact the chemical shipping rates, but so far the effect has been minimal due to the increase in fleet size for both chemical and product tankers

AG Med Chemical Rates



Source: Clarkson, SHUAA Capital

The best performing market in 2006 has been the chemical market flowing out of the Arabian Gulf driven by increased export volumes and demand from Asia. This trend may not necessarily diffuse to other markets and routes, as the Gulf is one of the few global markets witnessing substantial growth in production of chemicals, and in particular petrochemicals.

Possible threats to the Business

Chemical hazards and problems

As might be expected in a trade where the products are so varied, the hazards presented by chemicals vary enormously. The identification and evaluation of these hazards is of vital importance not only to the operation of chemical tankers but also to their design and construction.

Hazard evaluation of chemicals is in itself a complex problem stemming from the combination of the flammability and toxicity characteristics of the chemicals themselves as well as from design and operation hazards.

A further complication is the fact that most chemicals are transported in relatively small amounts. The ships which carry them are consequently much smaller than crude oil carriers but are expected to carry several different products at the same time. It is probable that these products will have different and usually incompatible properties.

Chemical Tanker Characteristics

Chemical tankers are relatively smaller in size; usually under 50,000 dwt, however they tend to have many more tanks than a bulk crude carrier - thirty or more is common. This gives greater flexibility and since the amount of individual cargoes carried are usually small (most are less than 500 cu m), the small size of the tank is not a disadvantage.

Most chemical tankers have their tanks separated from the outer frame of the ship by a double bottom or double skin. If the ship is damaged in a collision or grounding this space should protect the cargo tanks from damage.

Global chemicals market overview

Historically, the production of petrochemical products was based in the US and Europe, having been the main global industrial centers. However, production capacity has been growing in Asia, South America, and particularly in the Arabian Gulf where Saudi Arabia plays a leading role. This trend is expected to continue as Asia increasingly cements its position as an industrial super power, and direct access to feedstock proves to be the determining factor behind growth in production.

The expected growth in chemical market to affect other industries such as logistics

Chemical production facilities have traditionally been located in areas with easy access to the required raw materials. Most new plants are being built in areas where natural gas is readily available. This can be seen by the biggest increases in production capacity in the Middle East, particularly in the Arabian Gulf and Iran.

With the growth and expansion of the chemical markets, there will be an increasing demand for logistics service providers capable of offering different types of storage and transportation services for this market. As most shipping and storage companies operate locally or within a certain region, there will be clear advantages being exploited by companies that are well positioned to capture the changing trends in chemicals production, export and consumption globally.

Freight Rates and Tanker Statistics

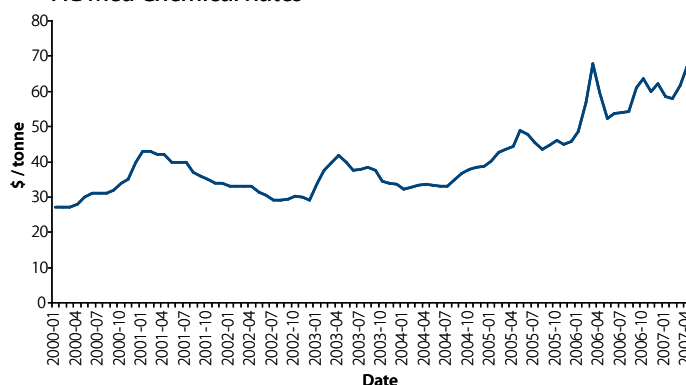
It is evident that the chemical shipping market is a growing business. Global demand for chemicals is growing about two to three percent above world GDP growth rates. That average growth rate of about 5 to 6 percent per year is about triple the expected growth rate for energy. This high growth reflects the continued penetration of chemicals and plastics into both existing and new uses around the world.

Market demand in the developing nations, especially in Asia and specifically China, is driving most of the growth we will see over the next several decades. This means North America will shift from a net exporter of chemicals to a net importer by as early as the end of the decade.

Over the next 10 years, it is expected that 60 percent of the world's petrochemicals demand growth will occur in Asia, and China alone will account for one-third of that growth.

Owners of modern chemical tankers can look forward to a strengthening freight market next year as vegetable oil trades are boosted by increased demand for biodiesel fuels. Higher energy costs have focused attention on finding cheaper alternative energy sources, such as biodiesel.

AG Med Chemical Rates



Source: Clarkson, SHUAA Capital

Freight rates are also highly dependant on the tanker prices. During the past four years, the tanker market has experienced three spikes in rates, which in turn was reflected in the transportation costs. Also, the tanker industry is experiencing a massive fleet renewal program, driven by the aging existing fleets and the increasingly stringent operating standards required under international, regional and country legislation and by oil companies and traders.

Rates show massive fluctuations

Tanker rates on benchmark trades showed massive fluctuations. The year 2006 started with a strong increase in tanker rates. Rates for January and February 2006 remained above the 2005 averages, but end year rates in 2006 showed a clear decline.

***Lack of shipyards are
pushing chemical
building prices higher***

Higher rates are the result of a tightening supply/demand balance for the more sophisticated vessels as deliveries fall back from the peak level in 2003. Deliveries, which peaked at 70,000 dwt/month in April 2003, are now down to 40,000 dwt/month. The order book going forward suggests that this will continue for the foreseeable future. Chemical tankers were never very affordable in the past, but now the lack of shipyards willing to build stainless ships has pushed the price of a sophisticated 37,000 dwt Multi-grade Parcel Tanker up to \$92 million – nearly as much as a VLCC.

But the supply-side is, if anything, outshone by demand. There are several factors at work. Firstly, Middle-East exports are expected to double by 2018 and in addition to boosting demand, chemical ships returning to the Gulf will face more ballast time.

Secondly, there is the IMO veg-oil regulation. The proposal to restrict veg-oils to IMO II tankers from 2007 has been relaxed to allow the use of IMO III ships. But it comes into force as the current order book runs down and will still have some effect. Thirdly, ordering replacement tonnage will be tricky and expensive, for the reasons mentioned above. Finally, a third of the IMO II fleet is over 15 years old, and with Charterers increasingly age sensitive, scrapping should be brisk.

Looking at the period of January 1st, 2003-2007, the total chemical tanker fleet, in terms of dwt, increased on average by 10.6 per cent per year. At the beginning of 2007, the chemical tanker fleet comprised 2,677, out of a total number of 10,824 tankers.

Historical Development of Chemical Tanker Fleet

Start of Year	Total No.	000 Dwt	Growth p.a %
1996	1,428	16,910	
1997	1,494	18,240	7.9%
1998	1,575	19,759	8.3%
1999	1,687	21,789	10.3%
2000	1,792	23,832	9.4%
2001	1,885	25,801	8.3%
2002	1,953	27,339	6.0%
2003	2,045	29,563	8.1%
2004	2,178	33,054	11.8%
2005	2,326	37,190	12.5%
2006	2,500	41,505	11.6%
2007	2,677	45,334	9.2%

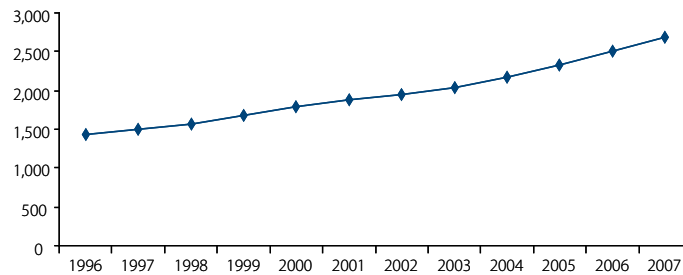
Source: Clarkson, SHUAA Capital

The total DWT for chemical tankers reached 45,334 dwt, which constitutes 11% of the global tanker total of 411.6 mill dwt.

In terms of dwt the total tanker fleet increased by 6.1 per cent over 2006 whereby the net gain – i.e. the tonnage balance between tonnage additions (new buildings) and tanker demolitions - stood at 24.6 mill dwt. The net increase for the various tanker market segments in 2006 comprised

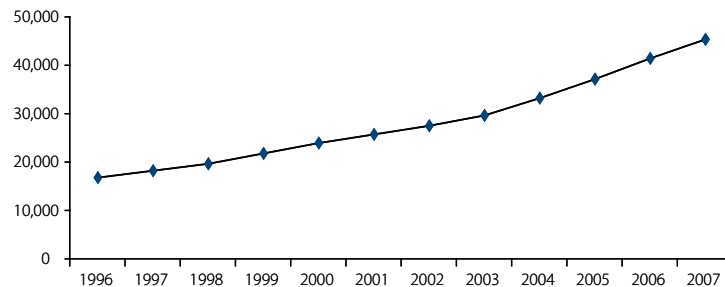
- 21.6 mill dwt for oil tankers
- 0.4 mill dwt for chemical tankers
- 2.6 mill dwt for liquid gas tankers

Number of Chemical Tankers



Source: Clarkson, SHUAA Capital

Total '000 DWT



Source: Clarkson, SHUAA Capital

In 2004 and 2005, 10.2 mill dwt and 7.2 mill dwt, respectively were reported to be broken up. In 2006, only 152 tankers with 3.9 mill dwt were demolished. This is the lowest level in a decade. During 2006, 1,379 tankers with 92.9 mill dwt were added to the order book. Thus, the volume has more than doubled compared to figures for 2005 (41.8 mill dwt).

Main Players in the Chemicals market

Top 20 maritime countries

The table below is based on total deadweight tonnage controlled by parent companies located in these countries: The figures in brackets represent percentage of world fleet.¹

Country	Percentage
Greece	18.48%
Japan	14.01%
Germany	6.90%
China	6.77%
United States	5.52%
Norway	5.24%
Hong Kong	4.88%
Republic of Korea	3.25%
United Kingdom	3.08%
Taiwan	2.78%
Singapore	2.66%
Denmark	2.01%
Russia	1.82%
Italy	1.60%
India	1.51%
Switzerland	1.37%
Saudi Arabia	1.32%
Malaysia	1.17%
Iran	1.13%
Turkey	1.04%

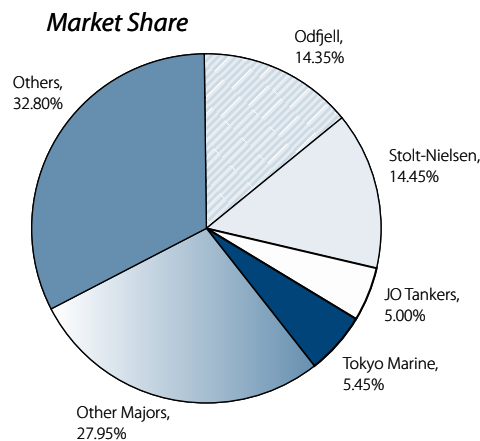
Source: UNCTAD Review of Maritime Transport 2005, SHUAA Capital

Key Highlights of the largest players in the chemicals shipping market

Looking at the Key Financial Highlights of the two leading companies, both generate a turnover from the chemical shipping business of around 1,000 million USD. The net income of the two companies is also close, with USD 200 million for Stolt Nielsen and USD 116 million for Odfjell. Similarly, the two companies are relatively close in size when comparing total assets. The fleet size of Stolt Nielsen however remains slightly larger.

Key Figures		
	ODFJELL	Stolt Nielsen
Chemical Tanker Revenue (USD mill)	939	1,066
Net Income (USD mill)	116	200
Total Assets (USD mill)	2,189	2,513
Fleet Size	91	130
Fleet on order	27	NA

The chart below shows an estimate for the relative market share of the leading players in the chemical shipping industry. Both Stolt Nielsen and Odfjell are in the lead with a combined market share of around 30%.



Source: Odfjell

Ro-Ro Market

The Ro-Ro market is mainly composed of four sub-markets. The deepsea and the short sea segment both can be divided into two parts. The deepsea can be divided into carry carrying trades and the regular liner trades with Ro-Ro facilities. The shortsea segment can also be divided into ferry transport for both passengers with cars and rolling freight, and freight only Ro-Ro transport (including containers).

Ro-Ro ships

The modern roll-on/roll-off ship can trace its origins back more than one hundred years to the early days of the steam train. Ships were specially designed to take trains across rivers which were too wide for bridges: the ships were equipped with rails, and the trains simply rolled straight on to the ship, which sailed across the river to another rail berth where the train would roll off again.

It was not until the Second World War, however, that the idea of applying the Ro-Ro principle of road transport became practicable - and was used in constructing the tank landing craft used at D-Day and in other battles. The principle was applied to merchant ships in the late 1940s and early 1950s. It proved to be extremely popular.

**Speed is one advantage of
RoRo ships over traditional**

The Ro-Ro ship offered a number of advantages over traditional ships, notably speed. Cars and Lorries can drive straight on to a Ro-Ro ship at one port and off at the port on the other side of the sea within a few minutes of the ship docking.

Ro-Ro ships also integrate well with other transport development, such as containers, and the use of Customs-sealed units (first introduced in the late 1950s) has enabled frontiers to be crossed with the minimum of delay, thereby further increasing speed and efficiency for the shipper. The vehicle deck of a Ro-Ro ship runs the entire length of the vessel. This makes loading and unloading a simple matter,

They are particularly popular in Europe, and trading patterns reflect this. Whereas pure container ships are to be found in large numbers operating between Europe and North America, Europe and Japan and Japan and North America, RoRo's operate primarily between Europe and North America and Europe and the Middle East.

***RoRo's are designed
to carry vehicles,
containers or a
combination of both***

Today the world Ro-Ro fleet can be subdivided into a number of different types. They include ships designed to carry freight vehicles only; to carry a combination of containers and freight vehicles and to transport cars without passengers. There are various other types and freight-only Ro-Ro ships form about two thirds of the world Ro-Ro fleet at present.

Ro-Ro fleet development

According to Clarkson Research Services Ltd, the total RoRo fleet (including RoRo/Freight/ Passenger vessels, RoRo/LoLo vessels, full-RoRo vessels, ConRo vessels and PC(T)Cs) increased by 4.8% in the year 2006. The fleet increased from 1618 to a total of 1673 units for a combined capacity of 18.13 million dwt, from 17.3 million dwt in the previous year.

The combined order book for all above-mentioned vessel types at the end of 2006 added up to 226 vessels for a combined capacity of some 3.5 million dwt. In addition, only a handful of RoRo vessels were sent to the scrap yards during 2006.

Financial analysis and forecasts

Given the nature of the shipping industry, and its high dependency on a main driver the chartering rates, the cyclical nature of the earnings is obvious in the expected financial performance of NSCSA as is the case with other shipping companies globally.

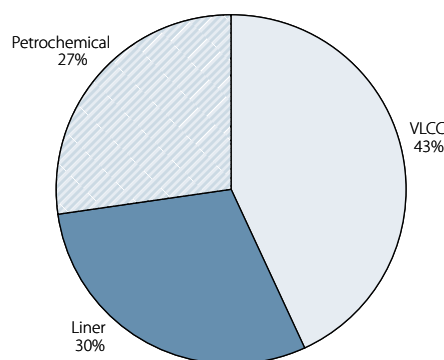
The expected drop in the earnings of NSCSA in the next few years is not related to a discrepancy in the company's operations, rather is a mere reflection of the industry's cyclical nature and mismatch between the demand for shipping capacities and the supply of shipping capacities. The substantial growth in expected profitability following that is similarly a function of expected strengthening of rates, as well as the introduction of new capacity, primarily of VLCCs and chemical carriers.

Income and profitability:

**Crude oil shipping
contributes to 43%
of total revenue**

NSCSA's revenues can be broken down into three main components: shipping of crude oil which constitutes as at the end of 2006 43% of total revenues, followed by the general cargo transportation constituting 30% of total revenues and the remaining 27% is the contribution of petrochemical transportation.

Revenue Breakdown



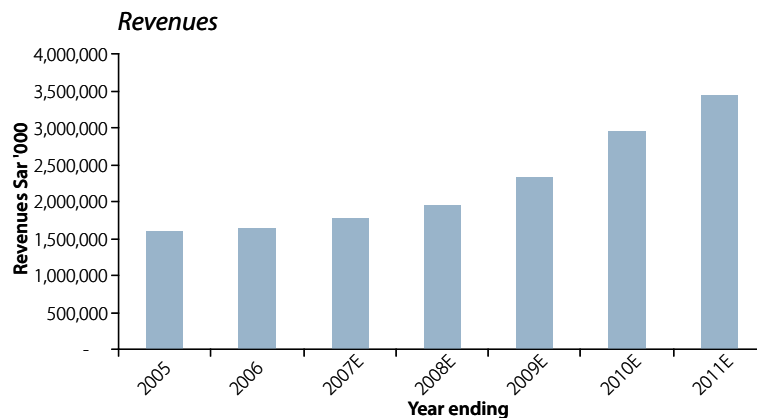
Source: NSCSA, SHUAA Capital

It is quite evident from the graph below the revenues have been stable over the past 2 years and almost the same as expected in 2007. During this period the company operated almost the same number of vessels on average at almost the same chartering rates given the time charter agreements they have whether with Odfjell, SABIC or others.

Starting this year the company has started to receive tankers that it had placed orders for previously as part of its five year expansion plan. However, the outlook on the chartering rates in the next few years doesn't look positive. Chartering rates today are at a four year low, US inventory is at its highest, oil demand is still expected to increase but at a decreasing rate and there is an excess shipping supply capacity available.

**Chartering rates are
expected to drop in 2008
but to spike by 2010**

Based on this, we expect that average chartering rates will decrease further in 2008, before beginning to improve slightly in 2009, given that it would be the last year where IMO will allow single hulled vessels to operate. We are expecting a spike in chartering rates in 2010 on the back of the total phasing out of single hulled vessels.



Source: NSCSA, SHUAA Capital

We expect NSCSA's gross profits to drop in 2008 by almost 8% to reach SAR 502 mn as a result of lower revenue per vessel on the back of weaker chartering rates. The gross profit margins are also expected to drop as the anticipated operational cost will prove sticky, especially that bunkering costs are likely to remain high.

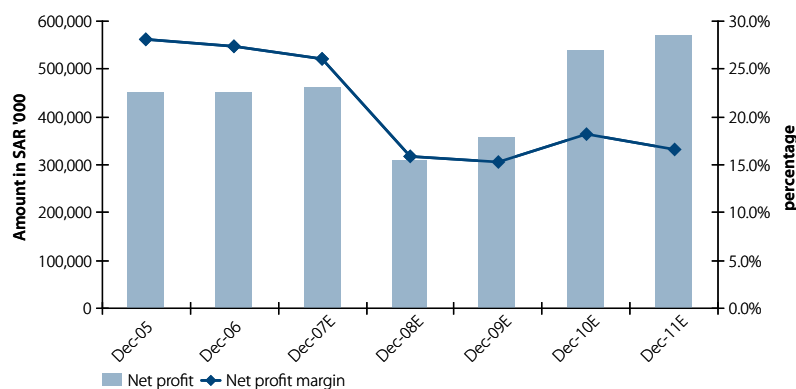
Gross margin of around 48% expected to drop to 40% by 2008

Crude oil shipping margins will remain the highest among the different components of the company's business despite the anticipated drop. The company's VLCC fleet as at end of 2006 generated a gross margin of around 48%, while we expect them to drop to 40% and 42% in 2008 and 2009 respectively.

Investment income is another source of income; this is the share of the company's 30.3% investment in Petredec, a LPG transportation company. This income contributes to almost 20% of company's net profit as at 2006, and is expected to contribute to 16% of 2007 net income. In 2008 and 2009 we expect this contribution to grow in relative terms given the anticipated decline in contribution from the company's other core activities.

Drop in net profits expected to recover substantially to SAR 538mn by 2010

We expect the company to record a net profit of SAR 463 mn in 2007, dropping to SAR 309 mn in 2008, before recovering substantially to reach SAR 538 mn by 2010 as a result of increasing revenues and higher gross margins. Nevertheless, we expect net profit margins in 2010 to reach 18% compared to our expected 26% in 2007. This is a result of the higher depreciation of fixed assets (a much larger and newer fleet) and higher interest expense on the forecasted loan to fund the expansion plan.



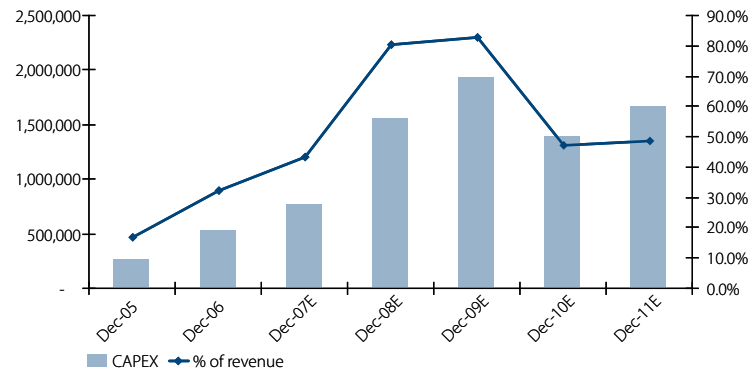
Source: NSCSA, SHUAA Capital

Expansion plan and associated CAPEX:

Expansion plan cost is over SAR 5bn

The company's expansion plan entails heavy CAPEX to be made during the next five years. The total CAPEX to be made in the next years is expected to exceed SAR 5 billion of which 70% is to be financed through debt and 30% to be financed through equity. The company during 2007 raised SAR 1.440 bn through issuing 90 mn new shares. This will be channeled through the equity portion for the cost of the expansion.

CAPEX

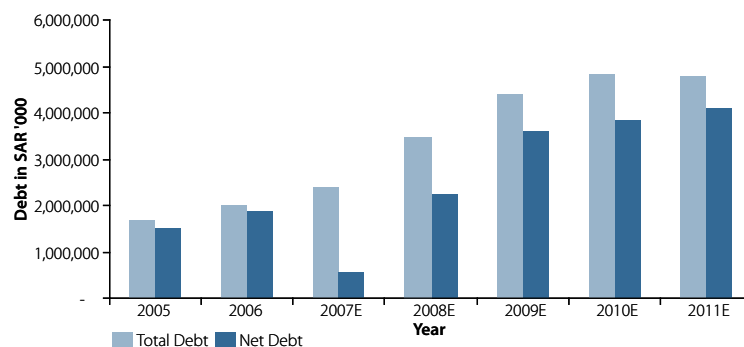


Source: NSCSA, SHUAA Capital

The total debt is expected to keep growing up till 2011 when all scheduled tankers are to be delivered based on the company's plan.

Total debt is expected to increase to SAR 2.3 bn in 2007 increasing gradually to reach SAR 4.8 bn. Servicing this debt will be pose additional pressure on the company's profitability and net margin especially that operational income is expected to be lower for the next two years.

Total Debt and Net Debt



Source: NSCSA, SHUAA Capital

Returns:

ROAE to decrease in 2007 as a result of raised capital, expected lower at 6% by 2008

It is worth mentioning the effect of anticipated earnings the next few years on the returns to equity and on assets. The company achieved a ROAE of around 15% in 2006. However it is anticipated that the return will be lower in 2007 if based on the number of shares at year end as a result of the increase the company's capital. The forward effect on 2008 and 2009 would be a further drop to the levels of 6% and 7% in 2008 and 2009 respectively as a result of anticipated earnings. Returns should recover markedly starting the year 2010, when the companies operating income and its earnings increase as a result a larger fleet as well as the phasing out of single hulled vessels that is predicted to reflect positively on chartering rates.

The same trend is the ROAA to follow, dropping from 7% in 2006 to 3.4% in 2009 and recovering back to reach almost 4.7% in 2010.

Valuation

We initiate coverage on NSCSA with a BUY recommendation based on fair value estimate of SAR 25.05 per share, implying an upside potential of 49.5% to the current market price of SAR 16.75 per share. The valuation was based on a weighted average of two valuation techniques, a DCF with a weighting of 70% and a peer valuation with a weighting of 30%.

	Fair Value Estimate	Weight	Weighted Estimate
Peer Valuation	21.76	30%	6.53
DCF	26.46	70%	18.52
Fair Value Estimate			25.05

Peer valuation was based on a simple average of expected 2007 global peer multiples namely price to book, price to earnings, price to EBITDA and EV to EBITDA. The implied fair value estimate of the resultant average estimated a fair value of SAR 21.76 per share.

The discounted cash flow method yields a higher value mainly as a result of the raised capital early this year that have increased the company's cash position until those proceeds are channeled into the construction or acquisition of tankers based on the expansion plan. The substantial growth in capacity that will result from these investments, as well as the favorable market positioning, is better captured in our DCF valuation.

The DCF of NSCSA was based on 6 year forecasts periods and a terminal growth of 2%; we have decided to implement a lower than usual terminal growth rate due to the highly cyclical nature of the industry. The Weighted Average Cost of Capital (WACC) used is 10.13% based on approximately 70% cost of equity and 30% cost of debt, derived from a risk free rate of 5.68% simulated on Qatar 10 years bonds, with a market premium of 5%.

Sensitivity Analysis

		Terminal Growth				
		1.00%	1.50%	2.00%	2.50%	3.00%
WACC	9.13%	28.24	30.54	33.17	36.20	39.72
	9.63%	25.35	27.33	29.58	32.15	35.10
	10.13%	22.79	24.52	26.46	28.65	31.15
	10.63%	20.52	22.03	23.72	25.61	27.75
	11.13%	18.50	19.82	21.30	22.94	24.78

Our target value for NSCSA reflects our view that the company is well positioned to capture the strong expected growth in regional trade activity and commodity export volumes over the medium to long term. However, the expected negative earnings trends over the short term may act as a damper towards the realization of our target value over the next year.

Financials

Income Statement (SAR '000)

Year to December	Dec 05	Dec 06	Dec 07E	Dec 08E	Dec 09E	Dec 10E	Dec 11E
Gross Revenue	1,602,270	1,651,281	1,781,935	1,948,174	2,338,096	2,946,568	3,434,983
Cost of Goods Sold	(1,081,005)	(1,161,006)	(1,238,901)	(1,445,859)	(1,690,509)	(2,047,056)	(2,465,108)
Gross Profit	521,265	490,275	543,034	502,315	647,587	899,512	969,875
S.G. & A.	(70,844)	(81,344)	(75,754)	(87,276)	(104,573)	(137,292)	(162,399)
Net Operating Profit	450,421	408,931	467,280	415,039	543,014	762,221	807,475
Interest Expense - Finance charges	(81,501)	(106,812)	(106,390)	(209,202)	(294,608)	(338,453)	(365,146)
Other Income (expense), NET	22,830	30,050	13,906	390	596	762	894
Total Investment Income - company's share in profits of affiliates, net	46,249	90,815	72,652	74,832	77,077	79,389	81,770
Net Profit Before bunker subsidy, Taxes, Zakat and minority	437,999	422,984	447,448	281,058	326,079	503,918	524,994
Bunker Subsidiary	31,533	48,158	36,296	41,496	47,888	57,931	69,986
Profit before zakat and tax and minority interest	469,532	471,142	483,744	322,555	373,967	561,849	594,980
Zakat Provisions	(14,259)	(12,878)	(14,512)	(9,677)	(11,219)	(16,855)	(17,849)
Tax Provision	(4,418)	(6,427)	(5,805)	(3,871)	(4,488)	(6,742)	(7,140)
Net Profit After Taxes/Zakat	450,855	451,837	463,427	309,007	358,260	538,251	569,990

Source: NSCSA, SHUAA Capital

Balance Sheet (SAR '000)

Year to December	Dec 05	Dec 06	Dec 07E	Dec 08E	Dec 09E	Dec 10E	Dec 11E
Cash in hand and at bank	145,164	140,456	1,818,199	1,226,526	794,289	989,370	683,668
Investment in government bonds and ST deposits	204,272	106,277	68,763	68,763	68,763	68,763	68,763
Net Receivables	107,901	94,720	103,743	113,421	136,122	171,547	199,982
Other receivables	35,871	42,373	43,938	48,037	57,652	72,655	84,698
Net Inventory	32,586	42,210	48,820	53,375	64,057	80,728	94,109
Prepaid Expenses ST	31,474	37,994	49,556	57,834	67,620	81,882	98,604
Agents current accounts receivable	17,619	6,581	56,546	10,675	12,811	16,146	18,822
Investment in available for sale securities	107,807	64,627	51,702	41,361	33,089	26,471	21,177
Accrued bunker subsidy, Net	15,534	22,773	38,889	41,496	44,467	49,655	54,989
Total Current Assets	698,228	558,011	2,280,156	1,661,489	1,278,871	1,557,217	1,324,812
Fixed Assets	3,346,742	3,650,744	4,213,807	5,506,503	7,109,052	8,101,217	9,311,317
Investment in affiliates and others	113,566	182,103	254,755	329,587	406,663	486,052	567,822
Government Bonds	61,832	10,604	604	604	604	604	604
Deferred charges, Net	43,199	105,039	105,039	105,039	105,039	105,039	105,039
Ships under construction	451,453	1,371,428	961,300	1,406,025	1,287,500	736,250	-
Goodwill, Net	119,177	119,177	119,177	119,177	119,177	119,177	119,177
Total Long Term Assets	4,135,969	5,439,095	5,654,682	7,466,934	9,028,035	9,548,339	10,103,959
Total Assets	4,834,197	5,997,106	7,934,838	9,128,423	10,306,906	11,105,557	11,428,771
Account Payable and other credit balances	184,158	264,107	271,540	316,901	370,523	448,670	540,298
Current Portion of Long Term Debt	231,911	665,976	570,410	227,214	227,214	693,723	693,723
Unclaimed dividends	18,979	15,077	-	-	-	-	-
Agents current account payable	7,001	622	3,394	3,961	4,632	5,608	6,754
Provisions for zakat and tax	150,298	145,125	112,768	80,369	54,347	32,419	5,849
Incomplete voyages	24,473	11,833	13,579	13,389	13,809	14,698	15,235
Total Current Liabilities	616,820	1,472,536	1,171,590	741,834	770,524	1,295,119	1,361,858
Long Term Debt	1,432,898	1,336,078	1,809,299	3,235,811	4,163,314	4,132,460	4,081,255
Mark to market adjustment on interest rate hedge	842	-	-	-	-	-	-
Tax obligation provision	20,000	12,000	12,000	12,000	12,000	12,000	12,000
End of Service Indemnity	20,899	22,612	24,079	25,810	27,941	30,659	33,690
Total Long-term Liabilities	1,474,639	1,370,690	1,845,378	3,273,621	4,203,255	4,175,119	4,126,945
Total Liabilities	2,091,459	2,843,226	3,016,968	4,015,455	4,973,779	5,470,238	5,488,803
Minority Interest	141,921	149,261	233,284	268,376	303,023	326,503	336,006
Paid-up Capital	1,999,290	2,250,000	3,150,000	3,150,000	3,150,000	3,150,000	3,150,000
Share premium	-	-	540,000	540,000	540,000	540,000	540,000
Legal/Statutory Reserve	79,419	123,569	168,846	199,036	234,038	286,625	342,313
Chg in Fair Val. Resv. & Translation Adj.	8,182	(31,064)	(31,064)	(31,064)	(31,064)	(31,064)	(31,064)
Hedging Reserves	(842)	-	-	-	-	-	-
Retained Earnings/ Accumulated losses	514,768	662,114	856,804	986,621	1,137,130	1,363,255	1,602,713
Total Shareholders' Equity	2,600,817	3,004,619	4,684,586	4,844,593	5,030,104	5,308,816	5,603,962
Total Liab. & Shareholders' Equity	4,834,197	5,997,106	7,934,838	9,128,423	10,306,906	11,105,557	11,428,771

Source: NSCSA, SHUAA Capital

Key Ratios % unless specified otherwise

Year to December	Dec 05	Dec 06	Dec 07E	Dec 08E	Dec 09E	Dec 10E	Dec 11E
Growth							
Revenues	-2.17	3.06	7.91	9.33	20.01	26.02	16.58
Gross profit	-7.81	-5.95	10.76	-7.50	28.92	38.90	7.82
EBITDA	2.77	4.90	2.77	0.05	24.86	30.23	8.65
Net profit	2.34	0.84	2.55	-33.32	15.94	50.24	5.90
Total assets	7.79	24.06	32.31	15.04	12.91	7.75	2.91
Shareholders' equity	22.10	15.53	55.91	3.42	3.83	5.54	5.56
Margins							
Gross margins	-7.81	-5.95	10.76	-7.50	28.92	38.90	7.82
EBITDA margins	46.33	47.15	44.91	41.10	42.76	44.18	41.18
Net profit margins	28.14	27.36	26.01	15.86	15.32	18.27	16.59
Returns							
ROAE	16.83	14.69	9.67	6.23	6.96	9.91	9.94
ROAA	9.06	7.36	5.71	3.31	3.40	4.74	4.87
Leverage and liquidity							
Debt/Equity (x)	80.42	75.44	57.18	76.10	94.27	103.68	104.03
Interest coverage (x)	5.53	3.83	4.39	1.98	1.84	2.25	2.21
Current Ratio	1.50	0.38	1.95	2.24	1.66	1.20	0.97
Valuation							
Number of shares ('000)	39,975	225,000	315,000	315,000	315,000	315,000	315,000
EPS (SAR)	10.95	1.96	1.44	0.96	1.11	1.67	1.77
DPS (SAR)	4.75	-	0.68	0.45	0.52	0.78	0.83
BVPS (SAR)		13.35	14.87	15.38	15.97	16.85	17.79
EBITDA per share (SAR)	2.36	2.47	2.54	2.54	3.17	4.13	4.49
P/E (x)	11.70	11.68	11.39	17.07	14.73	9.80	9.26
P/BV (x)	0.26	1.25	1.13	1.09	1.05	0.99	0.94
EV/EBITDA (x)	6.64	6.33	6.16	6.15	4.93	3.78	3.84
Dividend yield	0.00	0.00	4.03	2.69	3.12	4.68	4.96

Source: NSCSA, SHUAA Capital

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