SHUAACAPITAL PSC

NSCSA (4030.SE)

Equity Research

General Update

February 1st, 2009

Current Price	SAR 17.25	**Country**	Kingdom of Saudi Arabia
Fair Value target	SAR 20.96	**Sector**	Shipping / Transportation
Recommendation	BUY	**Exchange**	Saudi Stock Market (Tadawul)

Sector Coverage Team

Kareem Z. Murad
+9714 3199 757
kmurad@shuaacapital.com

- We revise our estimates for NSCSA based on the interplay of the demand and supply of available capacity. Our revenue growth assumes a rather conservative CAGR of 7.7% between 2008 and 2013, driven mainly by an increase in fleet size. We also assume a drop in net profits at a CAGR of 3.6% over the same period.

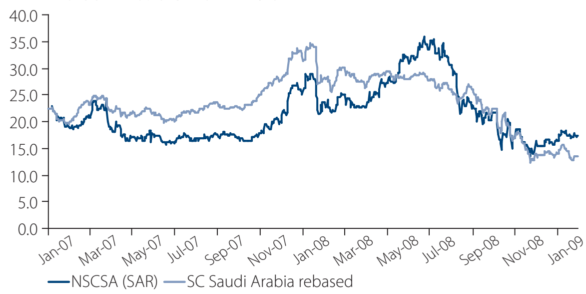
- Revenues recorded for 2008 are expected to reach SAR 2.49 bn, recording a growth of 46.4% over 2007, buoyed by the increasing rates for spot chartered vessels. Going forward, we expect the surplus in available capacity will push charter rates lower and, hence, drive revenues lower on a pro forma basis. On the other hand, several deliveries are expected to be made within the next three years which will promote revenues to reach SAR 2.41bn and SAR 3.00 bn in 2009 and 2010, respectively, recording sequential growth rates of -3.0% and 24.1%.

- We maintain our BUY recommendation and update our fair value per share to SAR 20.96, implying a potential upside of 21.5% from the current share price of SAR 17.25. The valuation takes into account our expectation of falling chartering rates on spot chartered vessels by over 45% from the levels earned in 2008, based on key fundamentals driving the earnings of companies within the shipping industry. We also revised our valuation parameters, such as the cost of capital and perpetual growth rate, to reflect the current economic crisis, which resulted in a significant reduction in our fair value.

Year	Net profit (SAR' 000)	BV (SAR' 000)	EPS (SAR)	BVPS (SAR)	RoAE (%)	P/E (x)	P/BV (x)
Dec-09E	466,013	5,479,818	1.48	17.40	8.50	11.7	1.0
Dec-08E	740,364	5,013,805	2.35	15.92	14.77	7.3	1.1
Dec-07	422,576	4,659,793	1.34	14.79	9.07	12.9	1.2
Dec-06	441,496	3,004,619	1.96	13.35	14.69	12.3	1.3

52-week range (SAR)	13.40 - 36.25
Number of shares (000')	315,000
Free Float (%)	71
Market cap (SAR' 000)	5,449,500
Market cap (USD' 000)	1,452,929
PE 2008e (x)	7.3
PB 2008e (x)	1.1
Div. Yld. 2007 (%)	3.66

NSCSA vs. SC KSA Index



Contents

Investment thesis:

NSCSA announced its preliminary figures for 2008 with net profits at around SAR 740 mn, implying a growth of 75.2% over the results of 2007. The growth in bottom line came on the back of an increase in the fleet size and, more importantly, on an increase in 2008 average chartering rates.

Examining the demand - supply equilibrium of available capacity, it becomes evident that the chartering rates will dampen going forward. The excess supply based on deliveries / cancellation of capacities and falling oil demand indicates 2008 to have actually been the most conservative year in terms of excess supply yielding an excess of almost 13%. Going forward, should fundamentals hold and no extraordinary development takes place, the excess supply is expected to increase further resulting in a continued drop in the chartering rates.

Hence, we have revised our estimates and we believe that 2008 is a record high for the company's net profits. Profits are expected to drop by 37.1% in 2009, to reach SAR 466.0 mn, and margins recording a significant drop from 29.7% in 2008 to 19.3% in 2009.

Although the industry would feel the effect of lower demand, as demand of oil is expected to decrease in the short term, as well as the effect of increase excess supply. We however, maintain our positive view on NSCSA given their geographical competitive advantage being in the heart of the oil and petrochemical trading activities. We reiterate our BUY recommendation with revised fair value per share to SAR 20.96, implying a potential upside of 21.5% from the current share price of SAR 17.25

Valuation indicates a significant 22% upside from current levels

Our fair value estimate based on weighted average of DCF valuation (weight 70%) and peer valuation (weight 30%) implies a fair value per share of SAR 20.96. Our DCF valuation based on 5 year forecast assumed a perpetual growth of 2%, as the company is going through a 5-year expansion plan yielding a net free cash of zero over the forecasted period.

The peer valuation based on a simple average of various multiples, including forecasted 2009 P/E multiple and EV / EBITDA multiples, yielded a fair value per share of SAR 19.17. Although the assumption that a company located in the heart of the oil exporting region and the petrochemical market should trade at same multiples as those international companies is conservative, we work on the assumption that most of the available capacity is available in the Arabian Gulf and, hence, no premium is attached to a GCC-based company.

Valuation changes

We have revised our estimates and fair value per share based on the following changes of model parameters:

1. An assumed 2% growth rate has been maintained from the earlier assumption reflects the recent slowdown in global economy and the high volatility of chartering rates. The impact of the terminal growth is material given that fair value is derived from the terminal growth. A 50 bps change in terminal growth will results in over 9% change in fair value estimate.

2. The industry's economics suggests that average chartering rates recorded in 2008 are not sustainable in current scenario. Chartering rates in 2008 for a VLCC averaged USD 110,000 per day; today, the market is trading at USD 70,000. We believe that throughout 2009, chartering rates for spot charters will average at USD 68,000 a day - a drop of almost 40% from 2008. A 15% change in chartering rates for 2009 will results in almost 31% change in fair value estimate, provided that growth estimates be maintained as they are throughout the remaining projected period.

3. We revised our WACC to 10.30%, taking into account current financial conditions, resulting in a 4.1% decrease in our DCF valuation.

Potential Upside

The company's Net Asset Value (NAV) per share of existing fleet suggest a fair value per share of SAR 34.94, a higher value than that yielded by the DCF by another 60.8%. Hence, net asset valuation could signal that either our assumption on chartering rates is conservative or that our perpetual growth assumption of 2% is. Bear in mind that the prices of the second hand vessels are taken as at October 08, and amidst the current global situation we have discounted these prices by around 20% to reflect lower asset prices and slower growth.

Our valuation didn't price in any surprise that might reflect positively on chartering rates, lifting earnings and margins going forward. We do, however, anticipate the occurrence of unfortunate natural disasters with a higher probability for a favourable outcome to shipper. Such an occurrence, similar to previous outcomes, would substantially pull charter rates higher with an equivalent positive effect on the company's profitability.

Industry update:

Deliveries of 2 VLCC's and 4 chemical carriers since our initiation

Since our initiation on National Shipping Company of Saudi Arabia (NSCSA) in September 2007, the company has continued its growth strategy as per initial plan, receiving 2 VLCC (Jana and Habbari) and 4 chemical carriers (NCC Rabigh, NCC Sudair, NCC Damman and NCC Hajel) that belong to National Chemical Carriers a subsidiary of NSCSA, bringing in additional 184,000 Dead Weight Tonnes (DWT) of capacity.

We still maintain our positive view on the operations of the company and recognize the uncertain impact of continued volatility of chartering rates that contributed positively to NSCSA 2008 earnings, on financial results.

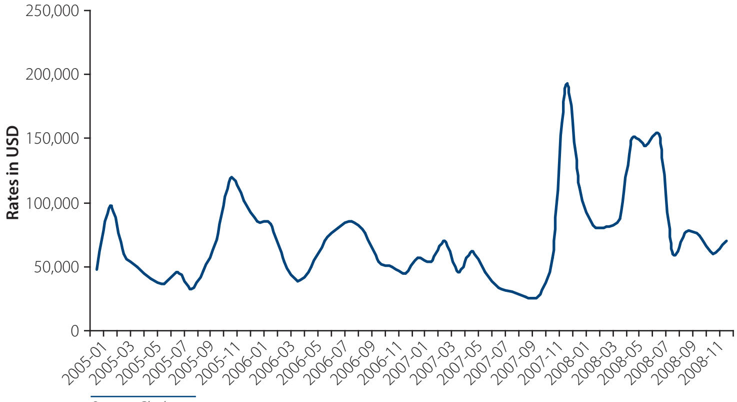
The main changes to our initiation report and assumptions are centered on the VLCC market, a main contributor to the company's revenues and which has witnessed major changes since resulting in the company's earning exceeding expectations. The other revenue contributors didn't witness significant changes from our original assumptions; they were, in fact, aligned with our original expectations.

Positive events impacting 2008 earnings

The VLCC market has witnessed a lot of changes that positively impacted our forecasted earnings, especially for FY 08. We initially expected that NSCSA will achieve lower earnings in 2008 than in 2007 as rates retreat back to the historical averages. But the recent market changes distorted our forecasts. Chartering rates did pull back to new lows post our initiation but soon recovered to above USD 80,000 a day and then rocketed to new highs reaching over USD 190,000 a day by end of December 2007, raising the average for the quarter to USD 83,000 a day.

Also, during the months of May to July 2008, another hike in chartering rates pushed them above USD 140,000 a day when the chartering rates usually correct downward as a result of lower demand for oil in these summer months.

Modern VLCC Chartering Rates



Source: Clarksons

The question arises whether this upward shift in chartering rates is a sustainable trend or just an unsustainable noise. In this note we attempt to address possible causes of hikes to justify our estimate on chartering rates that, we think, will be unbiased towards abnormal market conditions. We will also attempt to provide various scenarios outlining the effect of chartering rates on the earnings of NSCSA.

Noise hikes or sustainable trend change:

Hikes due to extraordinary events

We believe that the recent rate hikes can be attributed to extraordinary events that played in the markets, and that these factors are neither sustainable nor predictable. Similar events might reoccur but their timings cannot be anticipated, leading us to believe that such surprises will have an impact on our estimate only in the short term and which cannot be sustained throughout our projection periods.

Seasonality of the industry

We trace back the hike in December of 2007 to various reasons that collectively stimulated the rates spiral. First is the seasonality of the industry. Chartering rates for VLCCs are typically higher during the 4th quarter and 1st quarter of a year because of the winter season that results in higher demand for oil and, therefore, higher demand for vessel capacities.

Rush of conversion of single hulled vessels to FPSO

Also, between March and September 2007, although the VLCC fleet increased by 4.2 mn DWT, the rush of the conversion activity of single hulled vessels to Floating Production Storage and Offloading (FPSOs) and very large ore carriers (VLOCs) led to a decline in, the VLCC capacity by 1.2 mn DWT during the same period. This decline may have also contributed to the surge in chartering rates in December 2007.

Demand rise against limited availability of capacity

More specifically, in December 2007, OPEC increased their levels of production to 31.9 mbd to accommodate for the cold weather in the northern hemisphere. While OPEC increased its production to accommodate for the demand, importing countries tried to seize this opportunity of using higher production to increase their reserves. The consequent demand rise against the limited availability of VLCC capacity in Arabian Gulf meant that chartering rates go up.

Korean incident

In the same month of December 2007, an oil accident involving single-hull vessel in South Korea raised security warnings and concerns. This incident may have pushed shipping lines to charter double-hulled vessels, placing fresh pressure on double hulled tonnage demand pushing chartering rates even higher.

Alongside, the effect of the credit crunch spread to ship-owners as well and it may have started to materialize in late 2007 and the beginning of 2008. Major western banks became more hesitant about extending loan facilities to emerging markets without a premium affecting an increase of cost of building. Also, banks have become less willing to extend as much facilities as they did prior to the credit crisis, pushing some ship-owners to cancel their orders on vessels under constructions. This development may have been perceived as having a long term effect of squeezing tonnage capacities.

Fear of US - Iran conflict

As for the subsequent hike in the summer of 2008, it could be attributed to various factors, of which the fear of a US-Iran conflict and the threat of Iran threatening to close down the straits of Hurmoz remain important. The strait that caters to 36% of the world's imports and more importantly, a significant percentage of different countries imports as shown in the table below.

Oil Imports Million Tons	Imports from Middle East	Total Imports	Middle East / Total Imports
Japan	199.9	248.8	80.3%
Other Asia Pacific	336.6	478.3	70.4%
Africa	38.1	66.1	57.7%
China	78.8	203.1	38.8%
Singapore	42.0	113.4	37.0%
Europe	146.6	688.8	21.3%
Australasia	7.7	40.8	18.8%
US	110.4	671.9	16.4%
Rest of World	3.0	22.1	13.7%
Canada	7.0	66.7	10.4%
S. & Cent America	4.5	79.2	5.7%
Mexico	0.8	21.6	3.7%
Total	975.3	2,700.6	36.1%

Source: Clarksons

The uncertainty around the issue of US-Iran conflict drove oil prices up and boosted oil demands, especially during the months of April to June.

National Iranian Tanker Co. decided to withdraw 14 VLCCs from service and convert these to floating storage units, thus reducing supply of VLCC and putting pressure on chartering rates.

Disruptions in Nigerian refineries

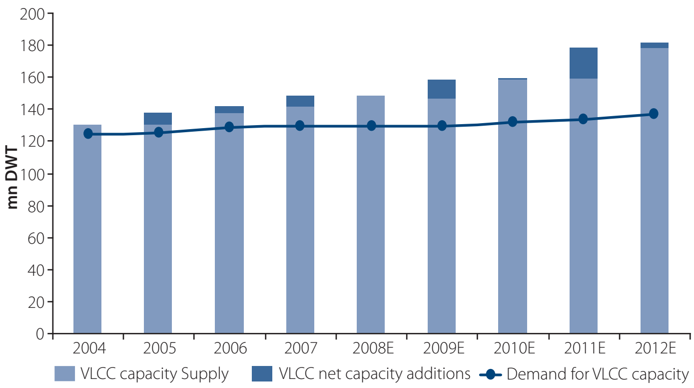
Other disruptions which influenced the market include an attack on oil refineries in Nigeria (such as Royal Dutch Shell oil installation) and Iraq during this period. These resulted in disruption of normal activities in the oil industry, creating a fear of substantial imbalance between demand-supply for tonnage, pushing freight rates up.

Most of the events outlined above are extraordinary and are not sustainable, in our opinion. We believe that these hikes should thus be eliminated from our projected average chartering rates going forward. We are not excluding the possibility of having surprises, but we are not incorporating their possible occurrence in our model, especially in our terminal value calculations.

Are we expecting positive surprises in chartering rates or shortage of capacity?

A sustainable cause for higher rates rests in the pure fundamentals of the drivers of chartering rates. Increases / decreases in demand or supply of tonnage capacities that results in a demand-supply mismatch drives equilibrium rates higher or lower.

Demand vs. Supply of VLCCs



Source: Clarksons

The total available capacity for VLCCs in terms of tonnage was around 148.3 mn DWT in 2007 against a demand of 129.7 mn DWT, implying that the supply was 14.3% higher than demand. Rising fears of a huge drop in available capacity following the International Maritime Organization (IMO) regulation to phase out single hulled vessels by 2010 resulted in a major surge in orders, the ordered book stands today at 50% of the current available capacity.

Phasing out of single hulled vessels commenced gradually

Interestingly, these orders and deliveries have led us to believe that the phasing out in 2010 will not have a huge impact on the available capacities. The phasing out has commenced gradually; the available tonnage of single hulled vessels is around 27.8 mn DWT dropping from 40.4 mn DWT in 2007, and is expected to drop further to 19.4 mn DWT in 2009.

VLCC Capacities mn DWT	Supply	Demand	Difference
2004	130.6	124.5	4.9%
2005	137.7	125.6	9.6%
2006	142.3	128.4	10.8%
2007	148.3	129.7	14.3%
2008e	146.7	129.6	13.2%
2009e	158.7	129.2	22.9%
2010e	159.6	131.6	21.2%
2011e	178.3	133.9	33.2%
2012e	181.4	136.6	32.8%

Source: Clarksons

Excess supply drops from 14% in 2007 to 13% in 2008 increasing to 23% in 2009

The effect of the phasing out will be more apparent in 2008 with the excess supply expected to drop from 14.3% in 2007 to 13.2% in 2008, and increasing gradually thereafter with increased deliveries to 22.9% in 2009 and 21.2% in 2010. 2008 would also be the year of available capacity constraints.

If chartering rates are a pure fundamental play with no noise effect, then these should not witness abnormal hikes on average.

Possible causes of temporary hikes

We do not rule temporary capacity constraints in 2009 and 2010 that may arise as a result of a mismatch between demand increases and delivery. Deliveries may be coming online during the end of the year, causing a short-term relative capacity constraint during the year..

Having said that, we think that the limited availability of fleet capacities in certain regions may act as a catalyst driving chartering rates higher. The Arabian Gulf route catered to almost 84% of the total VLCC demand, equivalent to almost 112 mn DWT. On the other hand, the capacities of the GCC owned VLCC is limited to 14.3 mn DWT (9.7% of the total available capacity) corresponding to only 13% of the capacity demanded from this region.

We can assume that most of the global capacity is available in the Arabian Gulf or should be available in the Arabian Gulf, however, in times of high demand for oil we would expect the VLCC capacity in the Arabian Gulf to experience positional shortage and would be a factor driving the chartering rates higher.

VLCC Demand	2005	2005	2006	2007	2008f
Arabian Gulf / Europe	1.1	1.3	1.1	1.0	1.1
Arabian Gulf / North America	2.4	2.2	2.2	2.1	2.1
Arabian Gulf / Korea	1.5	1.6	1.6	1.7	1.7
Arabian Gulf / Japan	2.6	2.7	2.6	2.6	2.6
Arabian Gulf / Other Far East	3.3	3.2	3.5	3.8	4.1
West Africa / United States	0.6	0.8	0.8	0.8	0.8
Other	1.1	1.2	1.2	1.6	1.7
Total mn bpd	12.7	13.0	13.2	13.6	13.9
Total mn DWT	124.5	125.6	128.4	129.7	133.5

Source: Clarksons

Changes due to extra ordinary events

Once again, we don't rule the occurrence of extraordinary events, like hurricanes (the most recent hurricanes being Gustav in the US and Ike in Tahiti) or any other natural disaster that might result in a sudden increase in oil demand causing a temporary or a non sustainable hike in chartering rates.

We do, however, anticipate unfortunate natural disasters to occur during the course of our projections with a higher probability of a fortunate for shippers' hikes in chartering rates.

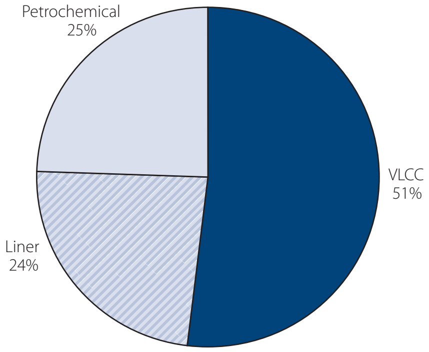
Financial analysis and forecasts

Revenues:

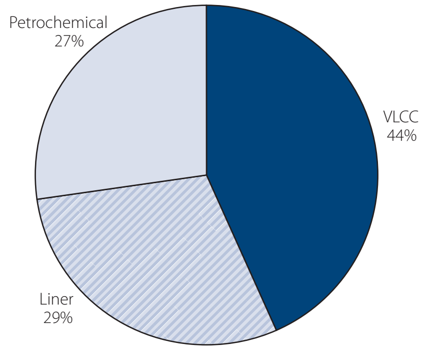
Estimated 2008 revenues at SAR 2.5 bn of which contribution of VLCC is 51%

NSCSA announced its preliminary results for 2008, but did not reveal the revenues of Q4 08 as of yet, however we estimate that the company achieved SAR 2.5 bn, of which 51.0% was the contribution of the VLCC market achieving almost SAR 1.3 bn, followed by the chemical market which contributed to 25% of the revenues and the liner market with 24%. Going forward, the breakdown is expected to change with a soft correction in chartering rates and with changes in fleet size of each type. The contribution of VLCC will drop to almost 44% of total revenues, liner fleet to 29%, while chemical fleet's share will reach 27% of total revenues by 2012.

Revenue Breakdown 2008



Revenue Breakdown 2012



Source: NSCSA, SHUAA Capital

Since the major positive shock to everyone's estimates came as a result of major changes in the VLCC market, we probe deeper into the sector trends.

VLCC charter rate hikes in 2008

T he YoY growth as reported in FY 08 was almost 38.4%. , Spot chartering rates for VLCCs hiked towards the end of 2007. The chartering rate for a modern vessel in early November 2007 was almost USD 31,000 a day. During the second week of December, the rates shot up to the levels of USD 214,000 a day. During 2008, the rates started correcting lower to the levels of USD 50,000 a day, but the correction was short lived and rates spiked again to reach USD 164,000 a day in July 2008. Today amidst the financial crisis and decreasing demand on oil, chartering rates today are hovering around USD 70,000.

Taking into account these recent trends in charter prices and the fact that the expected rates were much lower in our initiation, we revise our numbers to accommodate the increase in revenue on the VLCC market. The average spot chartering rates for the 7 VLCCs, out of a total of 13 VLCCs that are operating on spot during 2008, is estimated at USD 112,000 a day for the year compared to USD 54,000 during 2007.

Six VLCC's on time charter

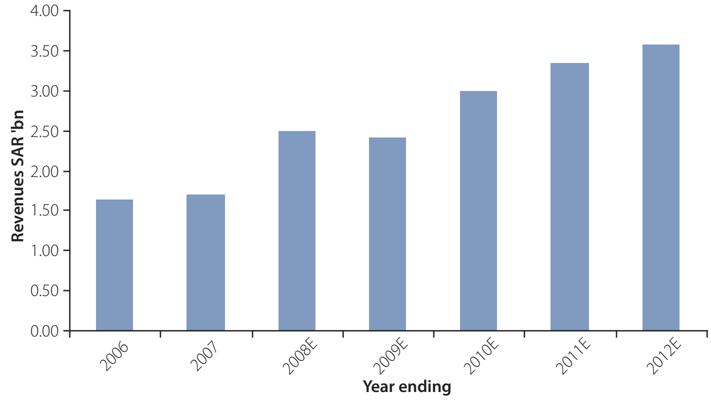
We maintain an average chartering rate for the remaining 6 VLCCs at almost USD 60,000 a day through out 2008, and going forward. Actually as per NSCSA strategy, the expected fleet of VLCC hired out on time basis is expected to reach 7 VLCCs by 2011.

Since, we are not anticipating any sustainable hikes in chartering rates starting 2009 onwards and amidst the global financial difficulty cultivated by lower demand on oil; we decrease our average chartering rates during the 2009 to the levels of USD 68,000 a day.

2008 expected revenues 46% higher than 2007

Revenues are expected to reach SAR 2.49 bn for 2008, recording a growth of 46.4% over 2007. This growth is not expected to be maintained at these high levels. Revenues are to reach SAR 2.41bn and SAR 3.00 bn in 2009 and 2010, respectively, recording sequential growth rates of -3.0% and 24.1%. Beyond 2010, the growth per year will be humble at rates of 11.1% and 7.4% in 2011 and 2012, respectively, reaching SAR 3.58 bn by 2012.

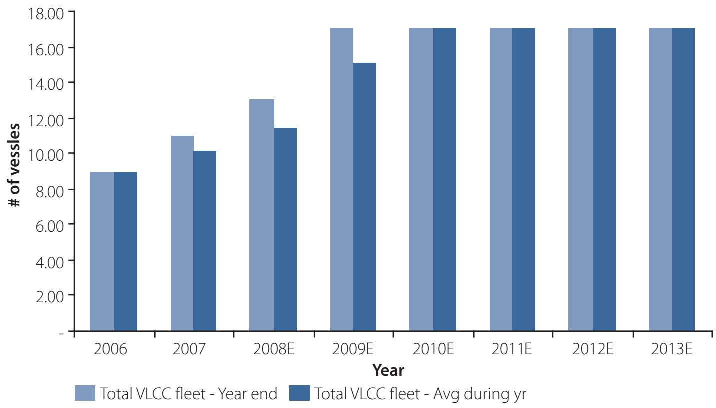
Revenues



Source: NSCSA, SHUAA Capital

The VLCC fleet is expected to reach 17 vessels by the end of 2009. We anticipate that 6 or 7 of these will be operated on time charter basis while the remaining operated in the spot market. The estimated revenues during 2008 from the operated VLCC's fleet are SAR 1.30 bn contributing to 52% of total revenues.

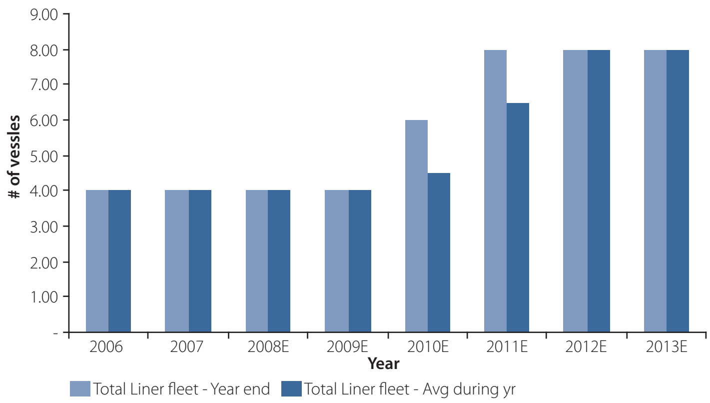
VLCC Fleet



Source: NSCSA, SHUAA Capital

As for the other contributors to revenues, the 4 liner vessels estimated revenues of SAR 586 mn, implying operational revenue, on average, at USD 109,000 a day. Going forward, we expect the earnings will slightly drop to the levels of USD 98,000 a day, recording an average yearly increase of almost 9% from the previous averages. During 2010 and 2011, an additional 4 liner vessels is expected to join the fleet of NSCSA.

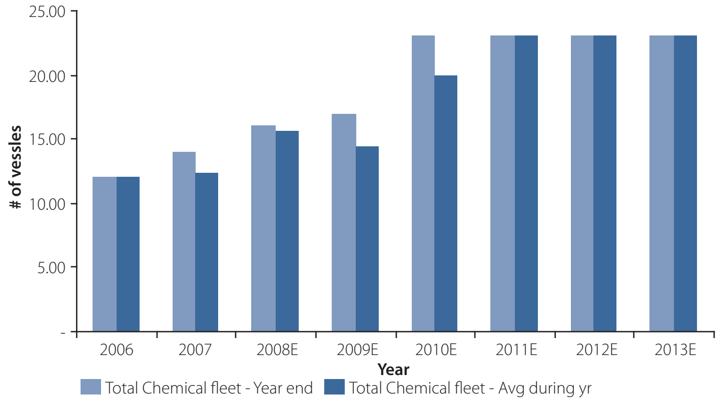
Liner Fleet



Source: NSCSA, SHUAA Capital

The chemical fleet is expected to have achieved revenues of SAR 612 mn, implying an average chartering rate a day of USD 29,000. Going forward, we expect that the average rate will be sustained at levels USD 30,000 a day. The operating average vessels in 2008 reached 15.58 vessels compared to 12.33 vessels in 2007. The chemical fleet size is expected to increase gradually until it reaches 23 chemical carriers by 2011.

Chemical Fleet



Source: NSCSA, SHUAA Capital

Gross margins

Charter rates not sustainable in 2009 leading margins to drop to 20%

Impressive gross margins on the VLCC fleet were recorded during 2008. The fleet achieved a gross margin of 55.5% in 2008 vs. 35.2% on average during 2007. However, as we believe that chartering rates are not sustainable at these high levels, we expect gross margins on the VLCCs to drop to 41.6% in 2009, recovering to almost 44.8% in 2010, and dropping again gradually to reach 41.3% in 2012.

For liner fleet, since the increase in bunkering cost was higher than the increase in chartering rates, we expect to see a drop in gross margins in 2008 by almost 480 bps to settle at 17.4% as compared to 22% in 2007. We believe that margins will remain around 9% - 11% throughout our projection period as a result of increasing interest and depreciation expense.,

As for the chemical fleet, we expect the year end recorded a gross margin of 21.1% - a rise of 380 bps from 17.3% recorded in 2007. Going forward, we expect margins to hover between 18% - 20%.

The blended gross profit margin is estimated at 38.1% in 2008 versus 26.5% in 2007; going forward, margins are expected to decrease gradually to 25.6% by 2012.

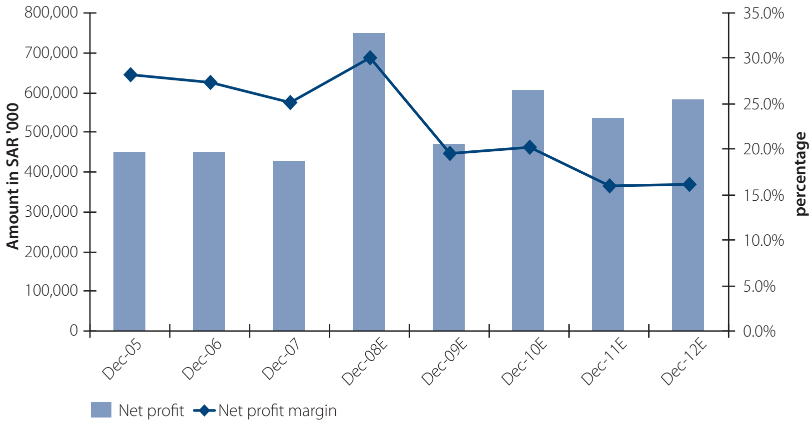
Net profits and net profits margin

NSCSA achieved SAR 740.4 mn in 2008, however, the expected drop in chartering rates in 2009 will affect the net income. Significantly increasing the interest expense with the expected deliveries during that year, our assumption of no gains on fixed assets, and, given the global economic slowdown, causing net profits to drop to SAR 466.0 mn in 2009.

2010 expected to witness an increase in net profits

In 2010, we expect a slight recovery in chartering rates since the deliveries during 2009 will begin to operate fully in 2010 complementing other additional vessels to be delivered that year. Net profits are expected to reach SAR 600.6 mn in 2010, dropping slightly in 2011. Chartering rates in 2011 will be lower than that of 2010 which would see single hulled vessels being fully phased out, resulting in a capacity excess tighter than that of 2011.

As for net profit margins, the year 2008 were a record year; net margins reached 29.7% vs. 24.8% in 2007. In 2009, net margins are to drop to 19.3%, increasing to 20.0% by 2010, before settling at 16.0% by 2012.



Source: NSCSA, SHUAA Capital

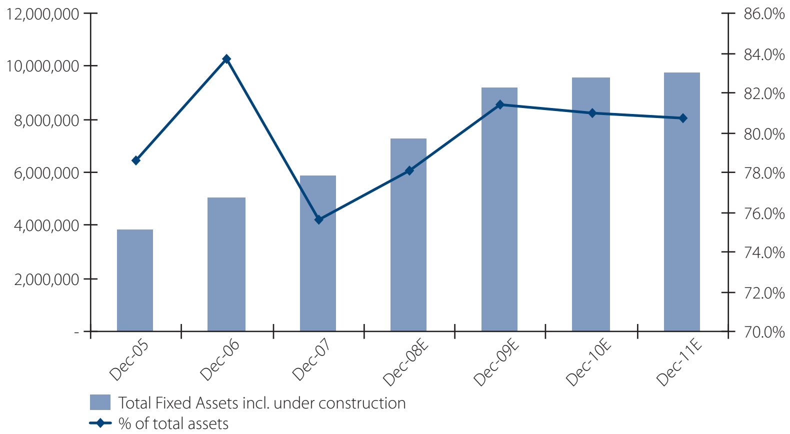
Fixed Assets

Six vessels to be delivered in 2009 rasing fixed assets to SAR 7.86bn

The growth strategy of the company is still on track as per initial plan; deliveries were in par with the initial schedule. The company, since our initiation in September 2007, has received 2 VLCC (Jana and Habbari) and 4 chemical carriers (NCC Rabigh, NCC Sudair, NCC Damman and NCC Hajel). These deliveries should raise the company's fixed assets to SAR 5.65 bn by the end of 2008. Another 4 VLCCs and 4 chemical carriers are to be received during 2009 to raise the fixed assets at SAR 7.86 bn by 2009 end to SAR 8.85 bn by end of 2010, and SAR 9.79 in 2011 which will see final deliveries marking the completion of the initial five year expansion plan.

Advance payments on vessels on order have been made. As of H1 08, the advances made stood at SAR 2.18 bn, but with the delivery of the VLCC Jana and Habbari, the advances are estimated to drop to SAR 1.65bn. More advances are to be made and so will be the deliveries, resulting in a negative net effect on deposit and bringing down amount for vessels under construction from SAR 1.30 bn in 2009, to SAR 0.75 bn by 2010, and to nil by 2011.

Total fixed assets including tankers under construction



Source: NSCSA, SHUAA Capital

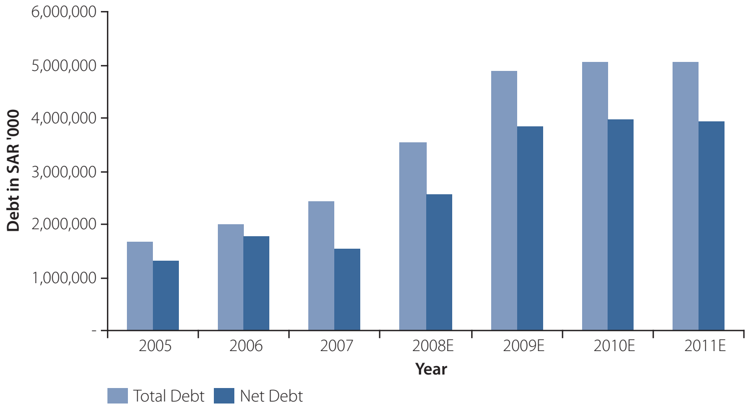
Loans and excess cash

The company is estimated to have a balance of Islamic debt, long term debt and short term debt of SAR 3.55 bn, corresponding to around 48.7% of the total fixed assets and assets under construction.

In our model, we have assumed that any payment to be made for fixed assets for implementing the expansion plan, starting from the second half of 2008 onward will be funded on the basis of 70% debt vs. 30% equity. This will imply that by 2011, when the final vessels will be received, the company's debts to fixed assets will stand at 51.4% - at par with the company's current target.

We estimate the company's cash and short term deposits & government bonds to stand at SAR 991 mn, increasing gradually to reach almost SAR 1.2 bn 2012. Of course, realizing these numbers will depend on the company's working capital, degree of funding of vessels and on dividend payments.

Total Debt and Net Debt



Source: NSCSA, SHUAA Capital

Valuation

We update our views and recommendation on NSCSA and reiterate our BUY recommendation with a fair value estimate per share of SAR 20.96, implying a 21.5% upside potential to the current market price of SAR 17.25. The basis of the valuation was maintained the same using a weighted average of two valuation techniques, DCF with a 70% weighting and a peer valuation with a weighting of 30%. We have however for sanity check applied a NAV valuation that yielded a fair value estimate per share of SAR 34.94.

	Fair Value Estimate	Weight	Weighted Estimate
Peer Valuation	19.17	0.30	5.75
DCF	21.72	0.70	15.21
Fair Value Estimate			20.96

The peer valuation was based on simple average of 2009 global peer multiples namely P/E, P/B and EV/ EBITDA. The yielded average implies a fair value estimate of SAR 19.17 per share. We decided to use 2009 multiples since we believe that the earnings of 2008 may not be a proper earning reflection since extra ordinary events have taken place.

Company	Ticker	EBITDA Margin	Gross Margin	Profit Margin	P/B 08	P/E 08	EV/EBITDA 08	P/ EBITDA 08
HUNTING PLC	HTG LN	6.54	9.07	2.94	0.98	16.85	9.80	8.67
EURONAV SA	EURN BB	55.64	NA	47.29	0.47	5.73	5.94	6.49
SHIPPING CORP OF INDIA LTD	SCI IN	26.29	NA	22.92	NA	3.31	NA	6.39
GREAT EASTERN SHIPPING CO	GESCO IN	10.45	NA	42.77	0.42	1.80	NA	3.25
NANJING WATER TRANSPORT IN-A	600087 CH	34.30	24.72	17.26	1.64	13.29	11.14	9.67
BERLIAN LAJU TANKER TBK PT	BLTA IJ	39.16	31.22	20.84	0.44	2.04	4.75	2.94
OCEANA GROUP LTD	OCE SJ	11.43	32.02	8.20	NA	8.36	5.96	NA
COTTON COMPANY ZIMBABWE	COTTCO ZH	NA	NA	NA	NA	NA	NA	NA
WILH WILHELMSEN ASA-A	WWI NO	20.96	NA	0.31	3.92	23.18	5.80	7.14
NANJING WATER TRANSPORT IN-A	600087 CH	34.30	24.72	17.26	1.64	13.29	11.07	9.67
EITZEN CHEMICAL ASA	ECHEM NO	30.17	NA	1.93	2.41	NA	10.40	4.32
BROSTROM AB-B SHS	BROB SS	25.79	NA	11.98	1.52	22.10	10.97	5.45
CHINESE MARITIME TRANSPORT	2612 TT	11.20	21.24	127.44	1.63	3.23	NA	NA
CIA SUDAMERICANA DE VAPORES	VAPORES CI	2.25	8.82	2.82	NA	NA	21.71	8.04
Average		**6.73**	**15.03**	**65.13**	**1.63**	**3.23**	**21.71**	**8.04**

The discounted Cash Flow (DCF) valuation yielded a higher fair value per share of SAR 21.72. The DCF was based on forecasts 5 years forecast which should reflect fully the sustainable free cash flow especially that all deliveries will take place in 2011, and vessels will operate for the full year. We have applied a relatively lower perpetual growth of 2% to calculate terminal value that reflects the growth of the industry and taking into account inflation.

The average Weighted Average Cost of Capital (WACC) of 10.30% is based on approximately a 70% weighting to cost of equity and a 30% weighting to cost of debt, and assuming a risk free rate of 6.0% and a 5% premium.

WACC \ Perpetual growth	1.00%	1.50%	2.00%	2.50%	3.00%
9.30%	23.28	25.28	27.56	30.17	33.20
9.80%	20.75	22.49	24.45	26.68	29.23
10.30%	18.51	20.03	21.72	23.64	25.82
10.80%	16.51	17.84	19.32	20.98	22.85
11.30%	14.71	15.88	17.18	18.63	20.25

Important to note that the company's valuation remains influenced by any change that might take place in the tankers market, any surprise or extra ordinary event that will affect the chartering rates will have a direct impact on the company's profitability, margins and value per share. As an example, if chartering rates for VLCCs is increased by USD 10,000/day above our estimates in 2009, the fair value yielded by the DCF increases by 31%.

Our valuation remains sensitive to any factor that impacts chartering rates or cost, extra ordinary items, higher than anticipated global oil demand or increase in VLCC demand on the back of the smaller crude carriers. However it is important to note that these surprises are positive and inevitable but time of occurrence and intensity of effect cannot be determined. We tried to capture a small percentage of these positive surprises by applying a higher than historical average chartering rates.

As sanity check to our valuation we have attempted to calculate the company's Net Asset Value of their fleet as it stand on the end of 2008, we estimate a NAV per share of SAR 34.94 a value that is 60.8% higher than that of our DCF model.

Below is a table showing the value of the vessels the company has in its fleet and our approach to calculate the NAV.

VLCC	Yr Built	Capacity DWT	Market price USD mn
Ramlah	Jan-96	300,361	68.0
Ghawar	Apr-96	300,361	71.6
Watban	Aug-96	300,361	76.6
Hawtah	Oct-96	300,361	79.1
Safaniyah	Jan-97	300,361	82.8
Harad	Oct-01	302,700	122.5
Marjan	Feb-02	302,700	124.5
Safwa	May-02	302,700	126.0
Abqaiq	Oct-02	302,700	128.5
Wafrah	Feb-07	318,000	154.5
Layla	Aug-07	318,000	157.5
Total			1,191.4

RoRo container	Yr Built	Capacity DWT	Market price USD mn
Saudi Abha	Jan-83	2,050	10.6
Saudi Tabuk	Oct-83	2,050	10.6
Saudi Hofuf	Jun-83	2,050	10.6
Saudi Diriyah	Mar-83	2,050	10.6
Total			42.4

Chemical tanker	Yr Built	Capacity DWT	Market price USD mn
Arar	Jan-82	23,000	-
Asir	Jan-82	23,000	-
Baha	Jan-88	24,700	-
Mekka	Jan-95	37,500	29.9
NCC Riyad	Jan-95	37,500	29.9
NCC Jubail	Jan-96	37,500	39.5
NCC Najd	Jan-05	46,200	155.2
NCC Hijaz	Jan-05	46,200	155.2
NCC Tihama	Jan-06	46,200	167.0

NCC Abha	Jan-06	46,200	167.0
NCC Tabuk	Jan-06	46,200	167.0
NCC Qassim	Jan-06	46,200	167.0
NCC Rabigh	Sep-07	46,200	186.7
NCC Sudair	Nov-07	46,200	188.7
NCC Dammam	Jan-08	46,200	190.7
NCC Hajel	Apr-08	46,200	193.6
Total			1,837.2

The above table can be summarized as follows, baring in mind that we have used the second hand prices at October 2008, which changes with the change in the demand for the VLCCs, the less the demand for the VLCCs the lower the second hand prices will be.

Total Fleet Value - USD '000	3,071,051
Total Fleet Value - SAR '000	11,518,590
Add: Ships under construction	2,182,094
Add: Cash	762,168
Deduct: Debt	3,456,677
NAV	11,006,175
Shares outstanding	315,000
NAV / Share	34.94

Our target value reflects our view of the company which given the NAV per share could signal a conservative approach. Our model assumes projecting chartering rates going forward which amidst the changes in the industry economics is very difficult, we decided to lower our chartering rates beyond 2009 as we assume there will be no capacity shortage, however, possible surprises presents a higher probability of a positive impact rather than a negative one, which only promotes our view on the company's value.

The company is located in the heart of oil and petrochemical market; this advantage can only materialize in complementing the company's activities. The set strategy of operating vessels on 50:50 spot to times basis hedges the company against the volatile market in case of a downside while retain the possibility of achieving higher substantial income from the upward movement of rates. Again we reemphasize that the possibility of extra ordinary events taking place promoting charter rates above our forecasts are probable.

Financials

Consolidated Balance sheet (SAR '000)

Year to December	Dec 06	Dec 07	Dec 08E	Dec 09E	Dec 10E	Dec 11E	Dec 12E
Cash in hand and at bank	140,456	190,481	305,714	344,088	393,151	407,746	541,888
Investment in government bonds and ST deposits	106,277	686,392	685,366	685,366	685,366	685,366	685,366
Net Receivables	94,720	132,440	145,181	140,850	174,815	194,201	208,513
Other receivables	42,373	59,326	61,488	59,654	74,039	82,250	88,311
Current receivables	137,093	191,766	206,669	200,505	248,855	276,450	296,824
Net Inventory	42,210	88,629	68,320	66,283	82,266	91,388	98,124
Prepaid Expenses ST	37,994	48,846	61,751	68,036	82,270	98,044	106,248
Agents current accounts receivable	6,581	14,167	13,664	13,257	16,453	18,278	19,625
Investment in available for sale securities	64,627	138,509	138,509	138,509	138,509	138,509	138,509
Accrued bunker subsidy, Net	22,773	41,852	48,019	45,544	49,910	54,421	59,517
Total Current Assets	**558,011**	**1,400,642**	**1,528,203**	**1,562,014**	**1,697,406**	**1,771,024**	**1,947,130**
Fixed Assets	3,650,744	4,634,435	5,647,225	7,855,070	8,844,712	9,785,788	9,305,252
Investment is affiliates and others	182,103	233,595	249,837	266,566	283,797	301,545	319,826
Government Bonds	10,604	604	604	604	604	604	604
Deferred charges, Net	105,039	146,246	150,229	150,229	150,229	150,229	150,229
Ships under construction	1,371,428	1,262,087	1,651,850	1,304,900	746,450	-	-
Goodwill, Net	119,177	119,177	119,177	119,177	119,177	119,177	119,177
Total Long Term Assets	**5,439,095**	**6,396,144**	**7,818,922**	**9,696,546**	**10,144,969**	**10,357,343**	**9,895,088**
Total Assets	**5,997,106**	**7,796,786**	**9,347,125**	**11,258,560**	**11,842,375**	**12,128,367**	**11,842,218**
Account Payable and other credit balances	264,107	321,601	274,920	372,798	450,796	537,229	582,183
Current Portion of Long Term Debt	665,976	202,858	359,658	470,872	542,369	592,209	624,533
Unclaimed dividends	15,077	18,437	25,805	-	-	-	-
Agents current account payable	622	2,759	(1,269)	4,660	5,635	6,715	7,277
Provisions for zakat and tax	145,125	142,951	147,963	139,282	143,538	141,289	142,714
Incomplete voyages	11,833	28,405	16,523	12,439	12,951	12,670	12,830
Total Current Liabilities	**1,472,536**	**717,011**	**823,599**	**1,000,051**	**1,155,289**	**1,290,111**	**1,369,538**
Long Term Debt	1,336,078	2,229,291	3,192,654	4,400,226	4,519,620	4,440,654	3,816,121
tax obligation provision	12,000	10,000	10,000	10,000	10,000	10,000	10,000
End of Service Indemnity	22,612	27,002	32,262	37,415	43,876	51,124	58,985
Total Liabilities & Provisions	**2,843,226**	**2,983,304**	**4,058,514**	**5,447,691**	**5,728,784**	**5,791,890**	**5,254,643**
Minority Interest	149,261	153,689	274,805	331,002	348,166	356,574	348,161
Paid-up Capital	2,250,000	3,150,000	3,150,000	3,150,000	3,150,000	3,150,000	3,150,000
Share premium	-	524,416	524,416	524,416	524,416	524,416	524,416
Legal/Statutory Reserve	123,569	165,827	239,863	286,469	346,525	399,473	456,924
Chg in Fair Val. Resv. & Translation Adj.	(31,064)	2,118	(14,052)	(14,052)	(14,052)	(14,052)	(14,052)
Retained Earnings/ Accumulated losses	662,114	817,432	1,113,578	1,533,034	1,758,536	1,920,067	2,122,125
Total Shareholders' Equity	**3,004,619**	**4,659,793**	**5,013,805**	**5,479,867**	**5,765,425**	**5,979,904**	**6,239,413**
Total Liab. & Shareholders' Equity	**5,997,106**	**7,796,786**	**9,347,125**	**11,258,560**	**11,842,375**	**12,128,367**	**11,842,218**

Consolidated Income statement (SAR '000)

Year to December	Dec 06	Dec 07	Dec 08E	Dec 09E	Dec 10E	Dec 11E	Dec 12E
Gross Revenue	1,651,281	1,703,294	2,493,695	2,419,311	3,002,710	3,335,680	3,581,517
Cost of Goods Sold	-1,161,006	-1,251,958	-1,543,779	-1,700,889	-2,056,756	-2,451,107	-2,656,211
Gross Profit	**490,275**	**451,336**	**949,916**	**718,422**	**945,953**	**884,573**	**925,306**
Gross profit margin	*29.7%*	*26.5%*	*38.1%*	*29.7%*	*31.5%*	*26.5%*	*25.8%*
S.G. & A.	-81,344	-87,301	-102,715	-104,381	-129,366	-146,589	-161,508
Net Operating Profit	**408,931**	**364,035**	**847,201**	**614,041**	**816,587**	**737,984**	**763,798**
Net operating profit margin		*13.9%*	*35.0%*	*25.4%*	*33.8%*	*30.5%*	*31.6%*
Interest Expense - Finance charges	-106,812	-128,110	-154,736	-228,662	-269,299	-274,045	-257,509
Other Income (expense), NET	30,050	71,648	38,017	54,463	27,463	27,463	27,463
Total Investment Income - company's share in profits of affiliates, net	90,815	81,210	16,242	16,729	17,231	17,748	18,281
Net Profit Before bunker subsidy, Taxes, Zakat and minority	**422,984**	**388,783**	**746,724**	**456,572**	**591,982**	**509,150**	**552,033**
Bunker Subsidiary	48,158	56,640	34,299	35,034	41,592	49,474	54,106
Profit before zakat and tax and minority interest	**471,142**	**445,423**	**781,023**	**491,605**	**633,574**	**558,624**	**606,139**
Zakat Provisions	-12,878	-12,224	-23,431	-14,748	-19,007	-16,759	-18,184
Tax Provision	-6,427	-6,195	-9,372	-5,899	-7,603	-6,703	-7,274
Net Profit After Taxes/Zakat	**451,837**	**427,004**	**748,220**	**470,958**	**606,964**	**535,162**	**580,681**
Attributed to							
Minority Interest	*10,341*	*4,428*	*7,856*	*4,945*	*6,373*	*5,619*	*6,097*
Shareholders	***441,496***	***422,576***	***740,364***	***466,013***	***600,591***	***529,543***	***574,584***
Net profit margin	26.7%	24.8%	29.7%	19.3%	20.0%	15.9%	16.0%

Key Ratios

Year to December	Dec 06	Dec 07	Dec 08E	Dec 09E	Dec 10E	Dec 11E	Dec 12E
Growth							
Revenues	3.06	3.15	46.40	-2.98	24.11	11.09	7.37
Gross profit	-5.95	-7.94	110.47	-24.37	31.67	-6.49	4.60
EBITDA	4.90	2.01	51.57	-11.70	23.81	-1.59	4.40
Net profit	0.84	-4.29	75.20	-37.06	28.88	-11.83	8.51
Total assets	24.06	30.01	19.88	20.45	5.18	2.41	-2.36
Shareholders' equity	15.53	55.09	7.60	9.29	5.21	3.72	4.34
Margins							
Gross margins	26.69	26.50	38.09	29.70	31.50	26.52	25.84
EBITDA margins	47.15	46.63	48.28	43.94	43.84	38.83	37.76
Net profit margins	26.74	24.81	29.69	19.26	20.00	15.88	16.04
Returns							
ROAE	14.69	9.07	14.77	8.50	10.42	8.86	9.21
ROAA	7.36	5.42	7.92	4.14	5.07	4.37	4.85
Leverage and liquidity							
Debt/Equity (x)	73.04	54.74	74.47	99.96	105.11	106.27	96.40
Interest coverage (x)	3.83	2.84	5.48	2.69	3.03	2.69	2.97
Current Ratio	0.38	1.95	1.86	1.56	1.47	1.37	1.42
Valuation							
Number of shares ('000)	225,000	315,000	315,000	315,000	315,000	315,000	315,000
EPS	1.96	1.34	2.35	1.48	1.91	1.68	1.82
DPS	-	0.63	1.10	0.70	0.90	0.79	0.86
BVPS	13.35	14.79	15.92	17.40	18.30	18.98	19.81
EBITDA per share	2.47	2.52	3.82	3.37	4.18	4.11	4.29
P/E (x)	12.31	12.86	7.34	11.66	9.05	10.26	9.46
P/BV (x)	1.29	1.17	1.08	0.99	0.94	0.91	0.87
EV/EBITDA	6.33	6.20	4.09	4.63	3.74	3.80	3.64
Dividend yield	0.00	3.66	6.40	4.03	5.19	4.58	4.97

This page was intentionally left blank

Research

Mahdi H. Mattar, Ph.D.
+9714 3199 839
mmattar@shuaacapital.com

Strategy and Economics

Ahmad M. Shahin
+9714 3199 742
ashahin@shuaacapital.com

Jafar Shami
+9714 3199 522
jshami@shuaacapital.com

Commercial Banks and other Financial Services

Mahdi H. Mattar, Ph.D.
+9714 3199 839
mmattar@shuaacapital.com

Sofia El Boury
+9714 4283 533
selboury@shuaacapital.com

Ghida Obeid
+9714 4283 536
gobeid@shuaacapital.com

Data

Ahmad M. Shahin
+9714 3199 742
ashahin@shuaacapital.com

Nicole Chamat
+961 1 974 479
nchamat@shuaacapital.com

Heavy Industries and Utilities

Mahdi H. Mattar, Ph.D.
+9714 3199 839
mmattar@shuaacapital.com

George Beshara
+9714 3199 837
gbeshara@shuaacapital.com

Hala Fares
+9714 4283 539
hfares@shuaacapital.com

Telecommunications, Media and Technology

Simon Simonian, CFA
+9714 3199 763
ssimonian@shuaacapital.com

Jessica Estefane
+9714 3199 834
jestefane@shuaacapital.com

Consumer, Retail and Pharma

Laurent-Patrick Gally
+9714 4283 544
lgally@shuaacapital.com

Transportation and Logistics

Kareem Z. Murad
+9714 3199 757
kmurad@shuaacapital.com

Real Estate, Construction and Construction Materials

Roy Cherry
+9714 3199 767
rcherry@shuaacapital.com

Taher Safieddine
+9714 4283 543
tsafieddine@shuaacapital.com

Technical Analysis

Nabil Effat, CFTe, MSTA
+9714 3651 862
neffat@shuaacapital.com

Adel Merheb
+9174 3199 793
amerheb@shuaacapital.com

Design

Jovan Ruseski
+9714 3199 759
jruseski@shuaacapital.com

Financial Editor

Anju Govil
+9714 3199 523
agovil@shuaacapital.com

Regional Sales

Mohamad Bleik
+9714 3199 773
mbleik@shuaacapital.com

Faisal Rajeh
+9714 3199 794
frajeh@shuaacapital.com

Chandni Khosla Shetty
+9714 3199 861
cshetty@shuaacapital.com

Hani Zaitoun
+9714 3199 783
hzaitoun@shuaacapital.com

International Sales

Nadine Haddad
+9714 3199 733
nhaddad@shuaacapital.com

Sam Quawasmi
+9714 3199 873
squawasmi@shuaacapital.com

Rabah Abu Khadra
+9714 3199 826
rkhadra@shuaacapital.com

Jasmine Samaha
+9714 319 9841
jsamaha@shuaacapital.com

Equity Advisory

Fares Mechelany
+9714 3199 745
fmechelany@shuaacapital.com

Fozan Al Mofleh
+9714 3199 747
falmofleh@shuaacapital.com

Nadeem Outry
+9714 3199 744
noutry@shuaacapital.com

Jad El-Hakim
+9714 3199 822
jhakim@shuaacapital.com

Halim Haber
+9714 3199 753
hhaber@shuaacapital.com