NATIONAL SHIPPING CO. OF SAUDI ARABIA (NSCSA)

VLCC Rate Rise Priced In

18 JANUARY 2010

SAUDI ARABIA | SHIPPING

Current Price* : SAR 19.0 **Rating: Sell**
Fair Value (FV): SAR 15.0

- **VLCC Rates Rally Boost NSCSA:** VLCC average day rates rallied strongly last week, rising by a staggering 125% to hit USD87,108/day. The current rate is the highest in over a year and is attributed to a pickup in demand from the Far East. The day rate of the Gulf to Japan route is close to USD100,000/day, while the rate of the Gulf to US route also rose by c50% to USD61,200/day. This bodes well for NSCSA, as it has 11 VLCCs trading in the spot market and puts positive pressure on our short-term forecasts. For instance, our 2010e forecasts assume an average rate of USD50,000/day, and consequently our 2010e EPS estimate would rise by 47% should the average rate move up to USD 85,000/day.

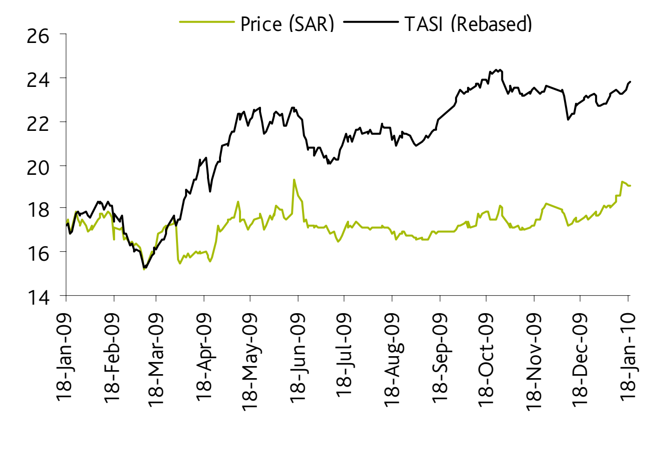
- ..**But Priced In:** Our current DCF value stands at SAR16.2 (our fair value estimate is a combination of NAV and DCF), but would rise to SAR20.1 if we assume an average rate of USD85,000/day. This implies that there is limited upside potential from here, as NSCSA's stock price has already risen by 12% in the last week to SAR19.0 on the back of improved sentiment. That said, a more significant change would occur if the average day rate rose to USD100,000/day, as our fair value would then rise to over SAR25.0.

- **Shipping Rates are Volatile and We Remain Cautious:** While the pickup in day rates is a positive boost for the industry, we would remind investors that the rates can be extremely volatile. As Figure 1 illustrates, VLCC day rates began 2009 at cUSD60,000/day before falling to cUSD10,000/day. Rates then rallied to USD40,000/day before falling back to USD12,000/day. Given this volatility, we would urge investors to remain cautious of sharp, short term movements. Furthermore, the IEA has cut its global oil consumption forecast by 20,000 barrels a day despite the recent cold snap in the US, which suggests that demand for oil continues to weaken. Given this, we suspect the fillip in day rates could be down to a short-term mismatch between supply and demand.

- **Delay in Delivery of Petrochemical Vessels could Impact Short-term Earnings:** NSCSA currently owns 13 petrochemical carriers, which are on medium-term charter. However, it is due to take delivery of a further 16 chemical vessels before 2011e. Our forecasts currently assume that six vessels will be delivered and operational by 1H2010e. However, we suspect there could be some slippage here, as some vessels due in 4Q2009 still have not been delivered. Consequently, it is worth highlighting that there could be some short-term negative pressure on the company's petrochemicals earnings.

- **No Change to Forecasts or Rating just Yet**: While the recent uptick in shipping rates is a positive boost for NSCSA, we remain cautious and leave our forecasts unchanged until a clearer picture emerges. However, it is worth emphasising that, should the VLCC day rate settle at current levels, then there is significant upside risk to our forecasts.

FLASH NOTE



	2009e	2010e	2011e
EPS	1.21	1.56	2.03
PER (x)	15.7	12.2	9.4
DPS	1.50	1.50	1.50
Div. Yield	7.9%	7.9%	7.9%
CFPS	1.87	2.93	3.65
P/CF (x)	10.2	6.5	5.2
BVPS	15.9	15.9	16.5
P/BV(x)	1.2	1.2	1.2

Figures in SAR, unless otherwise stated

Stock Data	
Last Dividend Date	SAR1.5 on 31 Mar 09
Mkt. Cap / Shares (mn)	SAR5,985 / 315
Av. Mthly Liqd. (mn)	1,014
52-Week High / Low	SAR19.35 / 15.20
Bloomberg / Reuters	NSCSA AB / 4030.SR
Est. Free Float	71.90%

*Price as at 18 January 2010

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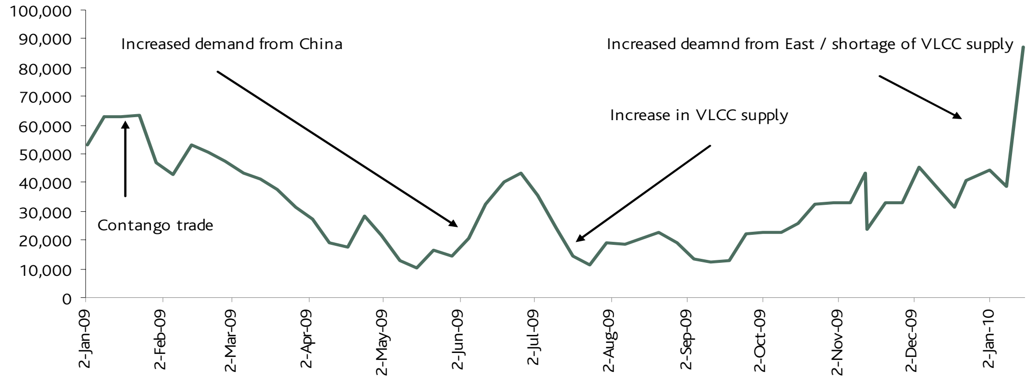
Figure 1: VLCC Day Rates
In USD thousands, unless otherwise stated



Source: Clarksons

The recent spike in the day rates is down to a combination of increased demand, particularly from the Far East and a supply shortage. For example, at the end of October 2009, there were 11idle VLCCs in the Gulf, but that number had fallen to five by the end of December 2009. This suggests that either a) some vessels have moved away from the spot to charter market, or b) many VLCCs are on longer journeys, which has caused a temporary supply shortage.

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