المجموعة المالية - هيرميس
EFG HERMES

NATIONAL SHIPPING CO. OF SAUDI ARABIA (NSCSA)

3Q2009 Results - VLCC Market Disappoints; Weak Numbers

22 OCTOBER 2009

SAUDI ARABIA | SHIPPING

Short-Term Rec.: Reduce	Current Price*: SAR 17.45
Long-Term Rec. : Reduce	LT Fair Value : SAR 15.00

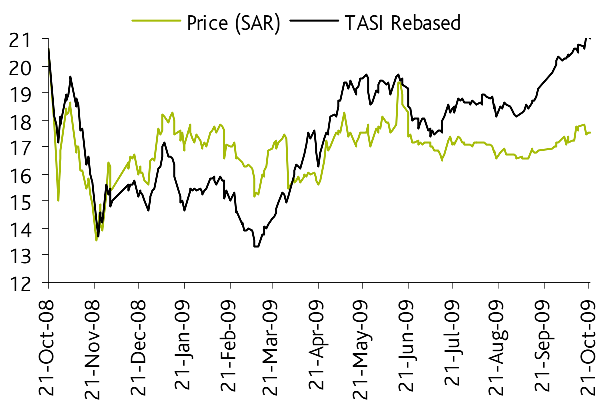
• **Reiterate ST/LT Reduce Recommendation:** NSCSA reported a weak set of 3Q2009 numbers, with net income coming in 25% below our estimate, due to a negative earnings surprise from the VLCC division. Overall, we lower our 4Q2009e net income forecast by 21%, which translates into a FY20009e net income estimate reduction of 9%. The stock trades on an unappealing 14.4x 2009e earnings and our unchanged LTFV of SAR15.0 implies 14% downside potential and, with this in mind, we reiterate our ST/LT Reduce recommendation.

• **Revenues Come in Ahead**: The company's 3Q2009 revenues of SAR400 million were up 11% Q-o-Q and came in 13% ahead of our estimate, as VLCC revenues were 20% above our estimate due to a higher utilisation rate. However, we estimate the day rate was approximately 10% weaker than our forecast. Elsewhere, Liner and Petrochemical revenues were broadly in line with expectations.

• **But Operating Profits Miss**: Operating profits of SAR73 million were down 28% Q-o-Q and 29% below our estimate due to weaker-than-expected profits from the VLCC division. The company's 3Q2009 VLCC operating profits fell 48% Q-o-Q and came in 43% below our estimate. The large drop in VLCC earnings despite top line growth suggests that some vessels are operating at a loss. For example, while we do not know the exact fixture details of each vessel owned by NSCSA, it is worth highlighting that VLCC spot rates for the Middle East to US route have been as low as USD6,000/day in the quarter compared to an operating breakeven (excluding depreciation and finance costs) of cUSD11,000/day. Furthermore, VLCC profits have historically been volatile and the large swing in quarterly margins should not come as a large surprise. Meanwhile, the Liner division was also weaker than anticipated, but the Petrochemical division performed marginally better than our expectations.

• **Lowering 4Q2009e Net Income by 21%**: Items below the operating line were broadly in line with our expectations, with lower-than-forecasted finance charges offset by weaker other income. Net income came in at SAR56million, down 48% Q-o-Q and 25% below our estimate. In summary, we lower our 4Q2009e net income forecast by 21% on the back of the weak 3Q2009 results. We up our 4Q2009e VLCC revenue forecast by 8%, as we increase our utilisation rate estimate but lower our operating profit estimate by 34% to factor in the margin pressure experienced in 3Q2009. We leave all other forecasts broadly unchanged. Overall, this translates into a FY2009e net income estimate reduction of 9%.

FLASH NOTE



	2009e	2010e	2011e
EPS	*1.21*	*1.56*	*2.03*
PER (x)	*14.4*	*11.2*	*8.6*
DPS	*1.50*	*1.50*	*1.50*
Div. yield (%)	*8.6%*	*8.6%*	*8.6%*
CFPS	*1.87*	*2.93*	*3.65*
P/CF (x)	*9.3*	*6.0*	*4.8*
BVPS	*15.9*	*15.9*	*16.5*
P/BV(x)	*1.1*	*1.1*	*1.1*

Stock Data	
Last Dividend Date	*SAR1.5 on 31 Mar. 09*
Mkt. Cap / Shares (mn)	*SAR5,496.9 / 315*
Av. Mthly Liqd. (mn)	*SAR1,455*
52-Week High / Low	*SAR20.6 / 13.5*
Bloomberg / Reuters	*NSCSA AB / 4030.SR*
Est. Free Float	*71.90%*

**Prices as at 21 October 2009*

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SUMMARY OF 3Q2009 RESULTS AND FY2009E FORECAST CHANGES

Figure 1: 3Q2009 Review and 4Q2009e and FY2009e Forecast Changes
In SAR million, unless otherwise stated

	2Q09a	3Q09a	Variance	3Q09e	Variance	4Q09e (Old)	4Q09e (New)	Variance	FY09e (Old)	FY09e (New)	Variance
VLCC	221	259	17%	216	20%	250	270	8%	947	1,010	7%
Liner Service	65	70	8%	64	9%	65	65	0%	306	312	2%
Petrochemical Carriers	75	70	-6%	74	-6%	81	81	0%	328	324	-1%
Total Revenue	**361**	**400**	**11%**	**355**	**13%**	**395**	**415**	**5%**	**1581**	**1,646**	**4%**
Operating Income											
VLCC	67	34	-48%	61	-43%	70	46	-34%	295	245	-25%
Margin	30.0%	13%		28%		28%	17%		31.2%	24%	
Liner Service	(13)	(12)	-9%	(5)		-	-		(26)	(33)	26%
Margin	-20.1%	-17%		-8%		0%	0%		-8.6%	-11%	
Petrochemical Carriers	48	50	4%	48	6%	48	48	0%	172	175	2%
Margin	64.8%	72.0%		64.0%		59.7%	59.7%		52.5%	54.1%	
Total Operating Profit	**102**	**73**	**-28%**	**103**	**-29%**	**118**	**94**	**-20%**	**441**	**387**	**-12%**
Total Margin	**28.2%**	**18.2%**		**29.0%**		**29.8%**	**22.6%**		**27.9%**	**23.5%**	
SG&A	(22)	(21)	-1%	(25)	-14%	(34)	(34)	0%	(105)	(102)	-3%
Finance Charges	(21)	(20)	-4%	(31)	-35%	(31)	(31)	1%	(107)	(96)	-10%
Associate	28	7	-75%	6	26%	6	6	0%	88	90	2%
Other Income	36	33	-8%	40	-18%	43	48	12%	171	169	-1%
Zakat	(9)	(8)	-11%	(11)	-31%	(12)	(10)	-19%	(43)	(37)	-13%
Minority Interest	(7)	(8)	6%	(7)	8%	(7)	(7)	0%	(30)	(31)	2%
Net Profit	**108**	**56**	**-48%**	**75**	**-25%**	**83**	**66**	**-21%**	**416**	**381**	**-9%**

Source: NSCSA, EFG-Hermes estimates

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Reduce	(10%) to (25%)
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