الراجحي المالية
Al Rajhi Capital

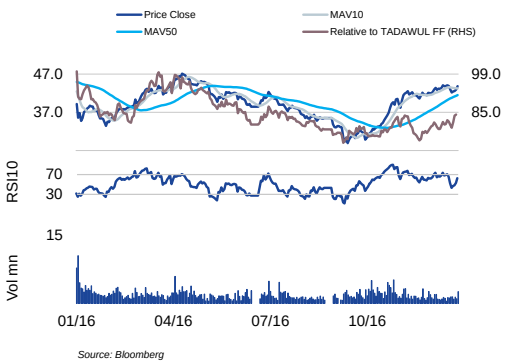
US$4.601bn	52%	US$23.79mn
Market cap	Free float	Avg. daily volume

Target price	38.7	-11.7% over current
Current price	43.8	as at 15/1/2017

Existing rating

Underweight	Neutral	Overweight

Performance



Earnings

Period End (SAR)	12/13A	12/14A	12/15A	12/16A
Revenue (mn)	2,847	3,624	7,502	6,805
Revenue growth	15.5%	27.3%	107.0%	-9.3%
EBITDA (mn)	972	1,166	2,743	2,750
EBITDA growth	9.9%	19.9%	135.3%	0.2%
EPS	2.4	1.6	4.6	4.5
EPS growth	49.3%	-29.0%	240.5%	-3.1%

Source: Company data, Al Rajhi Capital

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Bahri

Q4: Tanker rates weigh down performance

Bahri's Q4 revenue declined 21% y-o-y, higher than our estimate of 17% decline likely due to lower than anticipated tanker rates in December (impacts core VLCC segment that contributes ~3/4th of total revenue). Lower tanker rates and higher bunker costs led to operating margin squeeze, which stood at 21.1% vs. 28.1% in Q4 2015. Consequently, Q4 net profit at SAR327.8mn was lower than our estimate of SAR385mn and much lower than consensus estimate of SAR431mn. Net profit decline has been cushioned by higher than expected share of profits of Petredec (30.3% held by Bahri), which stood at SAR56.5mn in Q4 (estimate of SAR20mn). As we had highlighted in our previous reports, tanker rates have been in a downtrend in H2 2016 due to supply concerns – global VLCC fleet is expected to grow 4% in 2017 compared to oil demand growth of just 1.3%. Further, the rise in oil prices has reduced the contango spreads, due to which the floating storage requirements have declined, and the strong pace of oil stocking by refineries in 2016 has also moderated. Bunker prices may also sustain at higher levels in 2017 due to rise in oil prices post the OPEC and non-OPEC agreement to cut production in Q4 2016. Bahri was one of our top picks in 2016, and the stock rallied ~40% since our overweight stance after Q3 2016 results. Pending release of detailed financials, we maintain our target price of SAR38.7 per share; however, the revised target price may have downside given the factors mentioned above. Given 12% downside from current price, we now rate the stock Underweight (Neutral earlier).

- **Revenue:** Revenue at SAR1,658mn (down 21% y-o-y) is lower than our estimate of SAR1,771mn, with the difference mainly attributable to the VLCC segment in our view. General cargo segment may have outperformed our estimates, given the company's disclosure that revenue increased y-o-y, while Dry Bulk and Petrochemical segments may have performed in-line with our estimates.

- **Margin:** Operating profit at SAR349.9mn is lower than our estimate of SAR432.5mn primarily due to lower than expected revenue. SAR14mn difference between the reported gross and operating profits is the lowest since the past 8 quarters, and points to SG&A expenses likely to be SAR15mn lower than our estimates. We await release of detailed financials to confirm the same.

- **Valuation:** For now, we maintain our equal weighted (DCF and EV/E based relative valuation) target price of SAR38.7 per share. Given 12% downside from current price, we now rate the stock Underweight (Neutral earlier).

Figure 1 Bahri: Summary of Q4 2016 results

(SAR mn)	Q4 2015	Q3 2016	Q4 2016	% chg YoY	% chg QoQ	ARC est
Revenue	2,122	1,356	1,658	-22%	22%	1,771
Gross profit	690	256	364	-47%	42%	464
Gross profit margin	32.5%	18.9%	21.9%			26.2%
Operating profit	595	230	350	-41%	52%	433
Net profit	566	318	328	-42%	3%	385

Source: Company data, Al Rajhi Capital

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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