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2Q2010 Results: In Line, But Outlook Mixed

EFG HERMES المجموعة المالية هيرميس

RESULTS REVIEW | SHIPPING | SAUDI ARABIA

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Net Income Broadly in Line

NSCSA's 2Q2010 revenues came in at SAR557 million, 21% ahead of our forecast due to a stronger-than-expected performance at the VLCC division. However, gross operating income came in 6% below our estimate at SAR149 million. Here, despite a better-than-expected performance from VLCCs, liner and petrochemical disappointed. Overall, net income came in at SAR132 million, 6% ahead our forecast on lower-than-forecasted finance charges.

VLCC Division Drives Earnings Growth, But Outlook is Mixed

The VLCC division's Y-o-Y improved results is explained by a recovery in VLCC rates, which rose to an average of cUSD55,000/day in 1H2010 from an average of cUSD32,000/day in 2009. However, in recent weeks the market weakened once again and VLCC day rates fell back to USD23,000/day and, while this may be a short-term move, significant downgrades are likely should day rates remain at current levels.

No Changes to Our FY Forecasts

Despite the recent weakness in day rates, we refrain from changing our FY numbers as VLCC rates can be volatile. For instance, at the start of 2010, day rates rallied up to USD80,000/day, only to fall back to USD40,000/day in subsequent weeks. The YTD day rate average stands at USD52,000/day, and we are currently forecasting an average day rate of USD50,000/day for 2H2010.

Yield to Support Stock in Short Term; Maintain Neutral Rating

Overall, the group delivered a solid set of results; however, given the sudden drop in day rates, investors may want to take profits at these levels. That said, we suspect that the downside potential is limited given the stock yields more than 5% and with this in mind, we reiterate our Neutral rating and our fair value of SAR18.9.

KEY FINANCIAL HIGHLIGHTS

December Year End (SAR mn)	2009a	2010e	2011e	2012e
Revenue	1,672	1,843	2,198	2,349
EBITDA	637	952	1,217	1,318
Net Income	369	490	639	711
EPS (SAR)	1.17	1.56	2.03	2.26
EPS Growth	-51%	33%	30%	11%
DPS (SAR)	1.00	1.10	1.25	1.40
P/E* (x)	15.1	11.4	8.7	7.9
EV/EBITDA	15.8	10.6	8.3	7.6
ROE	7%	9%	12%	12%
P/CF* (x)	12.8	6.1	4.9	4.5
Div. Yield	5.6%	6.2%	7.0%	7.9%
Net Debt	3,977	4,055	4,282	3,554

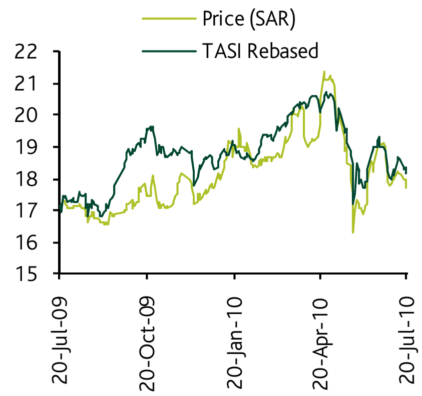
*Prices as at 20 July 2010

Source: National Shipping Co. of Saudi Arabia (NSCSA), EFG Hermes estimates

STOCK DATA

Price	**SAR17.75***
Fair Value	**SAR18.9**
Last Div. / Ex Date	SAR1.0 on 04 April 2010
Mkt. Cap / Shares (mn)	SAR5,591 / 315
Av. Mthly Liqdty (mn)	SAR422
52-Week High / Low	SAR21.4 / SAR16.3
Bloomberg / Reuters	NSCSA AB / 4030.SE
Est. Free Float	71.9%

SHARE PRICE PERFORMANCE RELATIVE TO TASI REBASED



QUARTERLY FIGURES

(SAR mn)	2009a	2010a/e
Q1	151.0	130.3
Q2	107.7	132.2
Q3	56.0	115.0
Q4	54.6	112.7

I. 2Q2010 RESULTS REVIEW

VLCC division continues to drive earnings, but liner and petrochemicals continue to lag

The company's stronger-than-expected top line performance is largely explained by strong revenues at the VLCC division, but the key focus, in our view, should be on the gross operating line, as revenues can fluctuate depending on the type of charter contract. For example, some charterers will opt to pay for their own fuel when hiring a vessel, (resulting in a lower average day rate), while others will prefer the ship-owner to handle all aspects of ship management (resulting in a higher average day rate). This can result in a volatile top line, but earnings should be broadly the same as costs are simply passed on by the ship-owner.

Moving onto the gross operating income line, VLCC income came in 32% ahead of our estimate at SAR134 million, which suggests that NSCSA was able to deploy its vessels on higher-yielding routes. For instance, our day rate estimate of USD50,000/day for VLCCs is made up of an average of different routes where day rates can vary from USD25,000/day (Gulf to US) to USD80,000/day (Gulf to Far East). Elsewhere, the improvement in the liner division's revenues, up 28% Q-o-Q, failed to translate into an improvement in profits and it remains loss-making. In addition, we expected a stronger performance from the petrochemical division after a recovery in the market, but again this failed to materialise.

Net income came in 6% ahead at SAR132 million due to lower-than-expected finance and zakat charges. Despite taking on more debt, NSCSA appears to be paying lower finance charges compared to a year ago, which is mainly explained by a decline in the benchmark SAIBOR. Overall, while we may tweak our numbers, incorporating the company's results, we are unlikely to change our FY forecasts unless VLCC day rates remain sustainably at or above current levels.

FIGURE 1: NSCSA 2Q2010 INCOME STATEMENT

In SAR million, unless otherwise stated

	2Q09a	1Q10a	2Q10a	Y-o-Y	Q-o-Q	2Q10e	Variance
Operating Revenue	**361**	**512**	**557**	**54%**	**9%**	**460**	**21%**
VLCC	221	380	405	83%	7%	291	40%
Liner Service	65	67	86	33%	28%	72	21%
Petrochemicals Carriers	75	65	65	-12%	1%	97	-33%
Gross Operating Income	**102**	**138**	**149**	**46%**	**8%**	**158**	**-6%**
VLCC	67	124	134	102%	8%	102	32%
Liner Service	(13)	(12)	(13)	-1%	7%	4	-461%
Petrochemicals Carriers	48	26	28	-43%	7%	53	-48%
G&A Expenses	(22)	(24)	(24)	13%	3%	(22)	12%
Operating Income	**80**	**114**	**124**	**55%**	**9%**	**136**	**-9%**
Equity Share of Affiliates	28	17	8	-73%	-54%	6	36%
Other Income (Expense)	19	4	0	-99%	-93%	22	-99%
Finance Charges	(21)	(14)	(12)	-41%	-8%	(35)	-64%
Income before Bunker Subsidy	**106**	**121**	**120**	**13%**	**-1%**	**129**	**-7%**
Bunker Subsidy	17	21	25	41%	17%	22	11%
Income before Zakat and Tax	**124**	**142**	**145**	**17%**	**2%**	**151**	**-4%**
Provisions for Zakat and Tax	(9)	(8)	(9)	0%	8%	(18)	-52%
Income before Minority interest	**115**	**134**	**136**	**18%**	**2%**	**133**	**2%**
Minority Interest	(7)	(3)	(4)	-48%	13%	(8)	-52%
Net Income for the Year	**108**	**130**	**132**	**23%**	**1%**	**125**	**6%**

Source: National Shipping Co. of Saudi Arabia (NSCSA), EFG Hermes estimates

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