SHUAA CAPITAL PSC

# NSCSA (4030.SE)

## Equity Research

## Q1 2009 Results Note

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### Sector Coverage Team

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**Profits boosted by investment income and a one-off item:** National Shipping Company of Saudi Arabia (NSCSA) reported Q1 09 net profits of SAR 151.0 mn (a 74.7% increase QoQ and 12.7% decrease YoY) while operating income came at SAR 93.6 mn (a 33.8% decrease QoQ and 53.8% increase YoY). Net profits were boosted by two items, an investment income mainly from its Petredec subsidiary which contributed to an additional income of SAR 45.5, and from a SAR 35.4 mn one-off realized fair value gain from selling of three chemical carriers in January.

**Lower chartering rates on average pulling revenues lower:** Revenues have dropped this quarter to SAR 469.3 mn compared to SAR 652.4 mn in Q4 08 and SAR 584.4 mn in Q1 08. NSCSA operated a total 30 vessels in Q1 09 vs. 32.9 and 29.8 vessels on average in Q4 08 and Q1 08 respectively; however operated at lower chartering rates across all types of tankers. In Q1 09 VLCCs operated on an average at USD 59,200 per day (-22.0% QoQ, -27.2% YoY, and 12.9% lower than our estimates). Chemical carriers followed the same suit operating at USD 22,470 per day (-26.6% QoQ, -17.7% YoY, and 22.5% lower than our estimates). The same applied to liner vessels which operated on an average of USD 82,210 per day (-29.8% QoQ, -24.0% YoY and 16.1% lower than our estimates).

**Operational loss on liner fleet, while VLCCs and chemicals fleets reported improving margins:** NSCSA was able to reduce its expenses on the majority of its fleet except on the four liner vessels they operate. The drop in rates for liners was not offset by the drop in corresponding cost, resulting in operating losses of almost SAR 8.0 mn and gross margins of -7.2%. The VLCC operational profits reached SAR 98.3 mn (-13.0% QoQ and -41.7% YoY) but margins improved sequentially to 37.8% compared to 34.3% in Q4 08, however still lower than 55.8% in Q1 08. Chemical carriers on the other hand achieved operational profits of SAR 28.2 mn (11.8% QoQ and 1.1% YoY); with margins improving to reach 28.6% compared to 15.3% and 20.4% in Q4 08 and Q1 08 respectively.

**Revenue contribution similar to the previous quarters:** The contribution of each type of vessel to revenues in Q1 09 is almost similar to those of Q4 08 and Q1 08. VLCC remains the highest revenue contributor reaching 55.3% of total revenues. However, given the operational loss of liner vessels, the contribution of each type to gross profit is substantially different. VLCCs contributed to almost 82.9% of the company's gross profit while chemicals contributed to 23.8% and liners to -6.7%, this compares to 65.9%, 14.7% and 19.4% for VLCCs, chemicals and liners in Q4 08.

**Expansion plan remains on track:** NSCSA received a VLCC in March which will become operational in April 2009. Another four VLCCs are expected to be delivered in 2009, while four chemical vessels will join the fleet in 2009 and another six in 2010 and further six in 2011. The total cost of construction is SAR 4.39 bn of which 58.9% has already been committed.

**Cautious outlook in the short-term:** Chartering rates continued to drop in April (VLCC rates have reached almost USD 30,000 per day), shipping and trade continues to slow down, and the warm season has commenced which implies that the rates will likely continue to remain at these low levels or drop further in Q2 09. Given the valuation levels and in the absence of a short term catalyst, we remain cautious on the stock in the short-term.

| | |
|---|---|
| Current Stock price (SAR) | 16.90 |
| 52-week ranger (SAR) | 13.40 - 36.25 |
| Number of shares outstanding | 315,000 |
| Free float | 71% |
| Market Cap (SAR '000) | 5,323,500 |
| Market Cap (USD '000) | 1,419,600 |
| PE 2009 E | 11.42 |
| P/B 2009 | 1.12 |
| Div Yld 2008 | 8.88% |

| SAR '000 | Q1 2008 | Q4 2008 | Q1 2009 | FY 08 |
|---|---|---|---|---|
| VLCC – Revenues | 301,792 | 329,022 | 259,728 | 1,354,084 |
| Chemical tankers – Revenues | 136,573 | 165,379 | 98,589 | 613,135 |
| Liner – Revenues | 146,083 | 158,010 | 110,982 | 623,898 |
| Total operating revenues | 584,448 | 652,411 | 469,299 | 2,591,117 |
| VLCC - Gross profit | 168,510 | 112,934 | 98,292 | 687,892 |
| Chemical tankers - Gross profit | 27,905 | 25,222 | 28,208 | 103,164 |
| Liner - Gross profit | 29,872 | 33,225 | -7,992 | 158,840 |
| Total - gross profit | 226,287 | 171,381 | 118,508 | 949,896 |
| Operating Income | 202,733 | 141,343 | 93,585 | 847,244 |
| Investment income | -6,255 | -4,860 | 48,520 | -4,508 |
| Other income | 8,511 | -20,324 | 35,439 | -12,132 |
| Bunker subsidy | 9,968 | 14,287 | 16,832 | 69,969 |
| Net profit | 173,111 | 86,451 | 151,049 | 740,315 |
| Fixed Assets | 4,896,892 | 5,667,122 | 5,111,240 | 5,667,122 |