Equity | Saudi Arabia | Transportation

11 March 2011

NSCSA

Fair seas navigator

A critical oversupply in VLCC tonnage accompanied by weak demand in OECD economies has resulted in trough conditions for VLCC shipping rates, which are cyclical in nature. Weak rates accompanied by high bunker fuels costs lead us to initiate coverage with a Hold rating and a SR16.33 target price.

Initiation of coverage

Hold

Target price
SR16.33

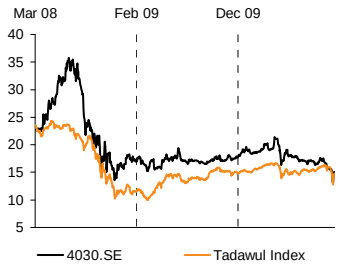
Price
SR15.00

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (SR)	15.70	16.50	18.70
Absolute (%)	-4.5	-9.1	-19.8
Rel market (%)	3.4	-3.9	-14.3
Rel sector (%)	-4.5	-9.1	-19.8



Market capitalisation
SR4.72bn (€906.12m)

Average (12M) daily turnover
SR15.69m (€2.93m)

Sector: European-DS Tot Mrkt
RIC: 4030.SE, NSCSA AB
Priced SR15.00 at close 9 Mar 2011.
Source: Bloomberg

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (SRm)	1,672	2,050	2,029	2,359	2,601
EBITDA (SRm)	806.4	851.2	726.4	872.3	1,121
Reported net profit (SRm)	369.3	414.9	230.9	245.8	447.6
Normalised net profit (SRm)	371.3	416.1	230.9	245.8	447.6
Normalised EPS (SR)	1.18	1.32	0.73	0.78	1.42
Dividend per share (SR)	1.00	1.00	0.51	0.55	0.99
Dividend yield (%)	6.67	6.67	3.40	3.67	6.60
Normalised PE (x)	12.70	11.40	20.50	19.20	10.60
EV/EBITDA (x)	10.80	9.10	11.80	11.30	8.29
EV/invested capital (x)	0.95	0.92	0.92	0.91	0.89
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Accounting standard: IFRS year to Dec, fully diluted
Source: Company data, Rasmala forecasts

Partially defended against weak spot environment

National Shipping Company of Saudi Arabia (NSCSA), Saudi Arabia's largest tanker owner operates a fleet of 17 very large crude carriers (VLCC) and 13 chemical carriers through its 80% stake in National Chemical Carriers (NCC) and four roll-on/roll-off (RoRo) boats. Thirty-five percent of the VLCC fleet and 77% of the chemical carrier fleet are chartered to various international and domestic shipping companies. The company's mixture of spot and charter shipping arrangements ensures it is partially defended against a low shipping rate environment, while allowing it to still capture any future upside from spot rates.

Short-term VLCC rate outlook weak, longer-term strong

While Drewry (shipping consultants) expects an increase in tonnage demand of 4.2% in 2011 and 7.8% in 2012, it estimates tonnage supply increases of about 8.5% in 2011 followed by 7.0% in 2012 on the back of heavy delivery schedules. As a result, the tonnage supply/demand gap should widen in the next two years and result in weakening VLCC dayrates. In the longer term, VLCC rates should benefit from a lighter order book schedule accompanied by growth in non-OECD countries, particularly in Asia.

Valuation indicates fair value with potential catalysts

We value NSCSA using a sum-of-the-parts methodology, implying a fair value of SR16.33 per share, with the largest contributions from the VLCC and chemical carrier segments, in that order. We arrive at this value primarily because of downward pressure on tanker rates and earnings in the short to medium term. Potential catalysts to provide upside to our target price include a stronger-than-expected rebound in oil demand, an earlier-than-forecast increase in OPEC production and higher rates due to potential disruption to key shipping routes. Downside risks include Middle East instability, potential for piracy disruption and elevated bunker fuel costs in a trough tanker rate environment.

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The basics

Versus consensus

EBITDA (SRm)	Ours	Cons	% diff
2011F	726.4	794.3	-8.5%
2012F	872.4	941.7	-7.4%
2013F	1,120.6	1,046.5	+7.1%

Source: Reuters, Rasmala forecasts

Forced ranking*

Company	Rec	Upside / Downside
Dana Gas	Buy	+48%
NSCSA	Hold	+9%
Nakilat	Hold	+5%

* By difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.
Source: Rasmala forecasts

Key events

Date	Event
Apr 20 2011	1Q results

Source: Company

Catalysts for share price performance

Positive catalysts include a faster-than-expected recovery in VLCC shipping rates due to a stronger-than-expected rebound in oil demand, earlier-than-forecast increase in OPEC production and higher shipping rates due to political tension in the MENA region.

Earnings momentum

The company expects six chemical carrier additions in 2011 and five tankers in 2012 and in addition, we expect incremental income from its 60% stake in Bahri Dry Bulk. Despite these additions, we see negative earnings growth over 2011 as a result of lower VLCC dayrates and higher bunker fuel costs. In 2010, the VLCC segment represented about 70.5% of revenue and 83.8% of operating income and the petrochemical segment 13.0% of revenue and 25.2% of operating income. We expect the petrochemical segment to become increasingly important – we forecast the segment will contribute 52.4% of operating profit in 2011 and 67.3% in 2012, but only 16.6% of revenue in 2011 and 23.2% in 2012. This is for two reasons: 1) we expect the VLCC segment to become less profitable in 2011 and 2012 due to lower dayrates and higher bunker costs; and 2) the chemical carrier segment's ability to generate steady revenue due to the majority of the fleet on charter contracts and incremental revenue associated with ship additions. We forecast a recovery in earnings from 2013 to 2015 due to a favourable shipping rate environment for VLCCs. For 2010-15, we forecast a revenue CAGR of 9.8%, an EBITDA CAGR of 14.5% and an EPS CAGR of 18.8%.

Valuation and target price

We value NSCSA using an SOTP methodology (Table 4), which yields a fair value of SR16.33 per share with the largest contribution coming from the VLCC segment. At the current price of SR15.00ps, on our estimates, the stock is trading at 2011F EV/EBITDA of 11.8x compared to an industry average of 10.2x. Our bull-case scenario implies a fair value of SR20.67ps, in which we assume a faster-than-expected recovery in VLCC dayrates. Our replacement cost valuation yields a fair value of SR10.86ps.

How we differ from consensus

We initiate coverage with a Hold rating. Bloomberg consensus shows other analyst ratings of one Hold and five Buys. Our recommendation differs from most of the others because we forecast negative growth in VLCC dayrates for 2011 and 2012, followed by a recovery in these rates post 2012. We believe our peers are pricing in a faster recovery for the VLCC segment.

Risks to central scenario

One key risk to our central scenario is high bunker fuel costs. About 65% of NSCSA's VLCC fleet and 100% of its RoRo fleet are exposed to the spot market and hence bunker fuel expenses. Bunker fuel follows a similar trend to oil prices and, as such, we expect this to put downward pressure on profitability. Other risks include further downward pressure on VLCC dayrates as NSCSA is currently highly geared to the VLCC market (70.5% of revenue in 2010) and political tension in the Middle East, which could cause disruption to key shipping routes.

Key assumptions and sensitivities

In valuing NSCSA we look at three scenarios: a base-case scenario, which we use to derive our target price; a bull-case scenario, assuming higher near-term and long-term shipping rates; and a replacement cost scenario, which we assume to be our floor valuation.

Below we also include a sensitivity analysis on the base case using long-term shipping rates for the VLCC segment and chemical carrier segment as our key variables. Target prices (TP) and major assumptions by case are shown below.

Base case (TP of SR16.33; potential upside of 8.9%)

- We carry the current mix of spot and charter vessels for the expected life of the fleet.
- We forecast VLCC average revenue per day of US$58,307 in 2011, US$56,849 in 2012, US$62,534 in 2013, US$73,165 in 2014 and US$86,335 in 2015.
- We forecast chemical carriers revenue per day of US$16,905 in 2011, US$18,088 in 2012, US$20,193 in 2013, US$21,502 in 2014 and US$22,577 in 2015.
- For the VLCC segment, we forecast a bunker fuel cost CAGR of 7.7% in 2010-15.
- We forecast gross operating margins of 13.3% in 2011, 15.1% in 2012, 23.3% in 2013, 29.8% in 2014 and 36.0% in 2015.
- We assume Bahri Dry Bulk adds two Panamax vessels in mid-2011 and three vessels at end-2011.

Bull case (TP SR20.67; potential upside of 37.8%)

- VLCCs – We forecast a faster-than-expected recovery in VLCC rates by assuming rates begin to recover in 2012 as opposed to 2013. We forecast VLCC average revenue per day of US$64,138 in 2012, US$75,041 in 2013, US$88,549 in 2014 and US$92,976 in 2015.

Replacement cost case (TP SR10.86; potential downside of -27.6%)

- Replacement cost – We use market resale figures to calculate a suitable replacement cost valuation for each individual vessel.
- Chemical carriers – We value all 25 chemical carriers, including the additional 12 to be delivered from now until 2013. We equity-adjust this number, then strip out our estimate of NSCSA's remaining capital commitment.

Sensitivity analysis

Table 1 : Target price: Long-term VLCC dayrates vs long-term chemical carrier dayrates

		Long term Average VLCC Shipping Rate (US$000)									
		55	**60**	**65**	**70**	**75**	**80**	**85**	**90**	**95**	**100**
Long term Average Chemical Carrier Shipping Rate (US$000)	**17**	(0.15)	2.76	5.68	8.60	11.51	14.43	17.35	20.26	23.18	26.10
	18	0.49	3.40	6.32	9.24	12.15	15.07	17.99	20.90	23.82	26.74
	19	1.13	4.04	6.96	9.88	12.79	15.71	18.63	21.54	24.46	27.38
	20	1.77	4.68	7.60	10.52	13.43	16.35	19.27	22.18	25.10	28.02
	21	2.41	5.32	8.24	11.16	14.07	16.99	19.91	22.82	25.74	28.66
	22	3.05	5.96	8.88	11.80	14.71	17.63	20.55	23.47	26.38	29.30
	23	3.69	6.61	9.52	12.44	15.36	18.27	21.19	24.11	27.02	29.94

Source: Rasmala forecasts

Contents

Executive summary

We initiate coverage with a Hold rating and a TP of SR16.33, implying 8.9% upside potential from the current price. Positive catalysts include higher shipping rates in the medium term.

Largest ship owner in Saudi Arabia

NSCSA's fleet ranks sixth among the world's VLCC operators in terms of fleet size

NSCSA ranks sixth among the world's VLCC operators, with a total VLCC fleet of 17 ships, and first among Middle East chemical carrier operators (through its 80% stake in NCC) with 13 chemical carriers, or about 571,000 of dwt capacity. The company is en route to becoming one of the key global chemical carrier operators with planned additions of 12 chemical vessels from now until 2013, which would take the fleet to a total of 25. The company's fleet is relatively young, with the average age of its VLCC vessels just over seven years and chemical carrier fleet at about six years. NSCSA should enjoy cost efficiencies associated with these newer breeds of ships.

NSCSA also owns and operates four roll-on/roll-off (RoRo) boats, which are strategically important for major infrastructure projects in the Middle East. It has established a dry bulk subsidiary of which it owns 60%, with a mandate to acquire five Panamax vessels to operate in the dry bulk segment.

As VLCC dayrates drop, chemical carriers become more important

The delivery of four VLCCs in 2009 brought NSCSA's VLCC fleet to 17, with a total capacity of 5.26m dwt. This fleet currently operates according to a balanced strategy of six VLCCs on time charter and 11 VLCCs on spot market. In 2010 and earlier years, the crude oil transportation sector represented the most important source of revenue and operating income for NSCSA. However, we expect lower dayrates and increasing bunker fuel costs from 2011 to 2013 to have a negative effect on operating profit, placing it behind the chemical segment in terms of operating income in 2012-13.

The VLCC segment contributed 70.5% of NSCSA's operating revenue in 2010

We forecast the chemical carrier segment will become increasingly important in terms of operating revenue in 2011-13 given our forecasts for the VLCC segment, the fact that NCC plans to add a further 12 chemical carriers in 2011-13, and revenue stability associated with so many vessels on time charter. We forecast operating profit contributions from the chemical carrier segment of 52.4% in 2011, 67.3% in 2012 and 50.7% in 2013. Post 2013 and in line with our expected recovery in VLCC dayrates, we expect this number to decline to more normalised levels of 40.5% in 2014 and 32.2% in 2015.

Table 2 : Key actuals and forecasts

(SRm)	2010A	2011F	2012F	2013F	2014F	2015F
Operating revenue	2,049.8	2,028.9	2,358.9	2,601.1	2,918.9	3,275.3
VLCCs	1,445.5	1,301.0	1,268.5	1,395.3	1,632.5	1,926.4
as %	*70.5%*	*64.1%*	*53.8%*	*53.6%*	*55.9%*	*58.8%*
Chemical Carriers	266.7	336.7	548.4	627.2	682.1	713.2
as %	*13.0%*	*16.6%*	*23.2%*	*24.1%*	*23.4%*	*21.8%*
Liners	337.6	354.4	379.2	417.2	438.0	459.9
as %	*16.5%*	*17.5%*	*16.1%*	*16.0%*	*15.0%*	*14.0%*
Dry Bulk	-	36.8	162.9	161.5	166.3	175.9
as %	-	*1.8%*	*6.9%*	*6.2%*	*5.7%*	*5.4%*
EBITDA	851.2	726.4	872.4	1,120.6	1,378.0	1,677.4
Net profit	414.9	230.9	245.8	447.6	689.7	980.6

Source: Company data, Rasmala forecasts

Chemical carrier segment should benefit from large investments in the Saudi Arabian petrochemical industry

Petrochemical exports in Saudi Arabia grew 17.2% in 2010

Saudi Arabia continues to grow its petrochemical industry as it diversifies away from oil to reflect a change in priorities. Petrochemical exports grew 17.2% last year, with the country shipping 30.7m metric tons of petrochemicals from its ports in 2010, up from 26.2m tons in 2009. Therefore, in this respect, NSCSA has an advantage over other chemical shippers, owing to its Saudi Arabian petrochemical link and its strategic partner in NCC, SABIC, which owns the remaining 20%. This link should ensure the chemical carrier segment remains highly utilised, backed by strong shipping demand.

Current VLCC shipping rate environment leads to our Hold rating

NSCSA generated 70.5% of its revenue and 83.8% of its operating income in 2010 from VLCCs, so the segment remains the company's most important. A critical oversupply of tanker vessels in the market accompanied by weak consumption growth in advanced economies has resulted in a weak tanker market and declining returns for tanker operators. These factors and increasing bunker fuel costs have left shipping players in an awkward situation, especially a player like NSCSA, which operates 65% of its VLCCs in the spot market.

We forecast a weak short- to medium-term tanker market outlook

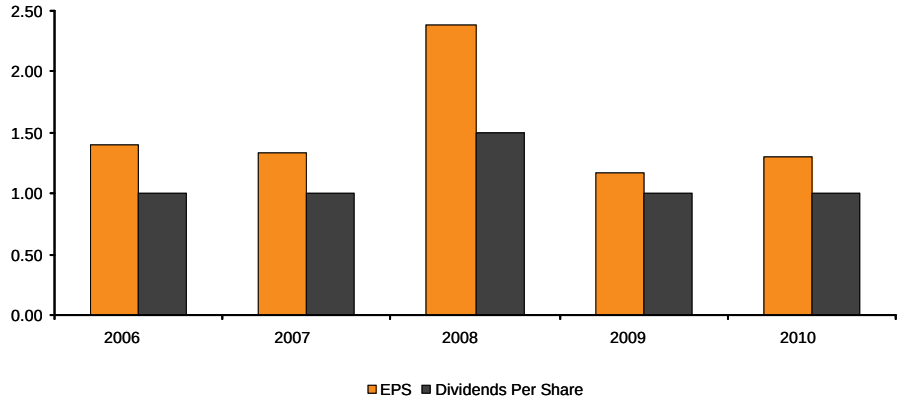
Globally, there are currently 192 VLCCS (36% of current VLCC dwt), 156 Suezmax's (39% of current dwt) and 139 Aframax tankers (17% of dwt) on the order book through to 2014, with much of that tonnage due over the next two years. As a result of this heavy order book, we see a tonnage supply demand gap that can be plugged only by higher oil demand and hence higher OPEC production and/or a reduction in tonnage supply, two scenarios that we see playing out from late 2012 into 2014. We forecast higher demand in response to growth in non-OECD countries, particularly both China and India, and a much lighter order book schedule. As a result of our weak short- to medium-term tanker market outlook, we initiate coverage with a Hold rating. Our bull-case scenario forecasts a sooner-than-expected recovery, which could be driven by sooner-than-expected growth in oil demand.

Consistent dividend policy

Dividend yield in 2010 on the current price is 6.7%

Investors in NSCSA have enjoyed a consistent dividend policy and management maintains that this policy is of key importance to the company. In 2009 and 2010, NSCSA announced dividends of SR1 per share, equating to a yield on the current price of 6.7%. NSCSA has averaged a dividend payout ratio of 74% in 2006-10 and we forecast this ratio at 70% going forward. The fact that the company maintains this policy is encouraging for shareholders, as returning cash to shareholders is obviously a key priority of the business.

Chart 1 : Consistent dividends payout



Source: Company data

Valuation

We value NSCSA on a sum-of-the-parts (SOTP) methodology and use three scenarios. We include a sensitivity analysis based on growth rates for the VLCC and chemical carrier segments and bunker fuel costs; we also use global companies for comparable analysis.

Base-case scenario

Table 3 : Base-case SOTP valuation

	Value(SRm)	Per Share (SR)	% of Asset Value	Valuation Methodology
VLCCs	6,521	20.70	127%	DCF
Chemical Carriers	1,654	5.25	32%	DCF
Bahri Dry Bulk	224	0.71	4%	DCF
RoRo's	156	0.50	3%	DCF
Corporate Expenses	-679	-2.15	-13%	DCF
Petredec	498	1.58	10%	10x normalised earnings in line with average historical multiple
Investments in financial instruments	78	0.25	2%	Book Value
Total EV	**8,452**	**26.83**	**164%**	
Net Debt	3,020	9.59	59%	Net debt as of 31/12/2010
Minority Interests	289	0.92	6%	Minority Interest as of 31/12/2010
Total Equity Value	**5,144**	**16.33**	**100%**	
Shares Outstanding	315			
Equity Value per Share	**16.33**			
Current Price	15.00			
Upside/Downside	8.9%			
Recommendation	Hold			

Source: Company data, Rasmala forecasts

Main assumptions

- VLCCs:
  - We carry the current spot to charter operating structure of 35% charter, 65% spot into the future.
  - We forecast average revenue per day of US$58,307 in 2011, US$56,849 in 2012, US$62,534 in 2013, US$73,165 in 2014 and US$86,335 in 2015.
  - We forecast opex per day (not including depreciation) of US$40,417 in 2011, US$42,932 in 2012, US$44,258 in 2013, US$45,638 in 2014 and US$47,047 in 2015.
- Chemical carriers (80% ownership):
  - We carry the current spot to charter operating structure of 77% charter, 23% pool into the future.
  - We forecast average revenue per day of US$16,905 in 2011, US$18,088 in 2012, US$20,193 in 2013, US$21,502 in 2014 and US$22,577 in 2015.
  - We forecast opex per day (not including depreciation) of US$6,807 in 2011, US$6,915 in 2012, US$7,058 in 2013, US$7,216 in 2014 and US$7,329 in 2015.
- RoRos:
  - We forecast the current fleet of four RoRo vessels are retired end 2012 and sold early 2013. We expect them to be replaced by four new RoRo vessels at an average cost of SR257m.
  - We forecast average revenue per day of US$67,511 in 2011, US$72,237 in 2012, US$79,460 in 2013, US$83,433 in 2014 and US$87,605 in 2015.

- We forecast opex per day (not including depreciation) of US$69,881 in 2011, US$71,844 in 2012, US$59,512 in 2013, US$61,327 in 2014 and US$63,225 in 2015. We forecast the new boats delivered in 2013 will be 40-50% more fuel efficient than the older boats, the primary reason for the drop in daily costs.

- Bahri Dry Bulk:
  - We forecast average revenue per day of US$26,900 in 2011, US$23,800 in 2012, US$23,600 in 2013, US$24,300 in 2014 and US$25,700 in 2015.
  - Historically, the bunker subsidy has fluctuated between 15 and 22% of the total bunker fuel costs; we assume about 19% of bunker costs going forward.
  - We assume SG&A of about 5.0% of revenue pa.
  - We forecast gross operating margins of 13.3% for 2011, 15.1% in 2012, 23.3% in 2013, 29.8% in 2014 and 36.0% in 2015.

- Capex:
  - Expansion – We estimate NSCSA has equity adjusted SR1.809bn of chemical carrier vessels to be delivered from end-2010 to June 2013, of which SR273m has already been paid. We estimate the remaining SR1.54bn will be paid over 2011-12, with SR1.04bn to be paid in 2011 and SR500m in 2012. With regards to the RoRo segment we estimate the company purchases four new RoRo boats for an average cost of SR257m per vessel, in line with recent comments by management. There is an option for two additional boats, however, at this time we choose not to include this as we do not expect the company to exercise this option due to the current shipping rate environment. We assume the business purchases two Panamax vessels in mid-2011 and a further three Panamax vessels at end-2011 for a total capital commitment of SR684m (SR137m per vessel), or equity adjusted to NSCSA of SR410.63m. We assume the purchases are financed with 70% equity and 30% debt.
  - Maintenance – As part of opex, we estimate annual capex of 1.0-1.5% of the original cost of the vessel; every five years, we factor a major maintenance overhaul of 2.5-3.0% of the original cost of the vessel. Vessels generally receive a major maintenance overhaul once every five years.

- Salvage value – After 25 years of operation, we assume salvage value of approximately 10-15% of the original cost of the vessel.

- We capitalise tax and working capital changes at the corporate level and include this under corporate expenses

- WACC – We use a WACC of 9.0%. Assumptions include a cost of debt of 4.0% and a cost of equity of 11.7%, made up of a risk-free rate of 6.0% and a beta of 1.1. We use a higher cost of equity to reflect the current political instability in the Middle East. We include a target price sensitivity table with the WACC as the dependent variable.

Table 4 : Target price sensitivity to WACC analysis

WACC	Value (SR)
6.5%	23.75
7.0%	22.06
7.5%	20.48
8.0%	19.01
8.5%	17.63
9.0%	**16.33**
9.5%	13.97
10.0%	12.89
10.5%	12.28
11.0%	11.88
11.5%	10.93

Source: Rasmala forecasts

- Petredec – We apply a 10x multiple to historical normalised earnings in line with NSCSA's trailing 12-month multiple.

- Investments in financial instruments – These investments represent investments in mutual fund units and investment portfolios managed by local banks. These are valued at book.

Table 5 : Target price: Long-term dayrates vs long-term bunker costs

		Long term Average Shipping Rates (US$ per day)										
VLCC		51,829	58,307	61,546	64,786	71,264	77,743	84,221	90,700	97,179	103,657	110,136
Chemical Carriers		12,880	14,490	15,295	16,100	17,710	19,320	20,930	22,540	24,150	25,760	27,370
RoRos		51,437	57,866	61,081	64,296	70,726	77,155	83,585	90,014	96,444	102,874	109,303
Growth from 2010 day rates		**-20%**	**-10%**	**-5%**	**0%**	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**
Long term bunker fuel cost growth from 2010 levels	**-10%**	(1.63)	3.95	6.74	9.53	15.11	20.69	26.27	31.85	37.43	43.01	48.59
	0%	(2.81)	2.77	5.56	8.35	13.93	19.51	25.09	30.67	36.25	41.83	47.41
	10%	(3.99)	1.59	4.38	7.17	12.75	18.33	23.91	29.49	35.07	40.65	46.23
	20%	(5.17)	0.41	3.20	5.99	11.57	17.15	22.73	28.31	33.89	39.47	45.05
	30%	(6.35)	(0.77)	2.02	4.81	10.39	15.97	21.55	27.13	32.71	38.29	43.87
	40%	(7.53)	(1.95)	0.84	3.63	9.21	14.79	20.37	25.95	31.53	37.11	42.69
	50%	(8.71)	(3.13)	(0.34)	2.45	8.03	13.61	19.19	24.77	30.35	35.93	41.50
	60%	(9.89)	(4.31)	(1.52)	1.27	6.85	12.43	18.01	23.59	29.17	34.74	40.32
	70%	(11.07)	(5.49)	(2.70)	0.09	5.67	11.25	16.83	22.41	27.98	33.56	39.14

Source: Rasmala forecasts

Replacement cost analysis

Table 6 : Replacement cost valuation

	Value (SRm)	Per share (SR)	% of asset value	Valuation methodology
VLCCs	4,727	15.01	138%	Replacement cost
Chemical carriers	2,527	8.02	74%	Replacement cost
Remaining payments for chemical carriers	-1,538	-4.88	-45%	Replacement cost
RoRos	150	0.48	4%	Replacement cost
Petredec	498	1.58	15%	10x historical normalised earnings
Investments in financial instruments	78	0.25	2%	Book value
Total EV	**6,442**	**20.45**	**188%**	
Net debt	3,020	9.59	88%	Net debt as of 31/12/2010
Total equity value	**3,442**	**10.86**	**100%**	
Shares outstanding	315			
Equity value per share	**10.86**			
Current price	15.00			
Potential upside/downside	-27.6%			

Source: Company data, Rasmala forecasts

Main assumptions

- VLCCs:
  - Five vessels built in 1996 – SR131m each.
  - Four vessels built from 2001-2002 – SR263m each.
  - Two vessels built in 2007 – SR342m each.
  - Two vessels built in 2008 – SR375m each.
  - Four vessels built in 2009 – SR397m each.
- Chemical carriers – We value all 25 chemical carriers, including the additional 12 to be delivered from now until 2013. We equity-adjust this number, then strip out our estimate of NSCSA's remaining capital commitment:
  - Three vessels built in 1995 – SR75m each.
  - Three vessels built in 2005 – SR85m each.
  - Three vessels built in 2006 – SR90m each.
  - Two vessels built in 2007 – SR95m each.

- Two vessels built in 2008 – SR100m each.
- 11 vessels to be delivered in 2011-12 – 161m each.
- One specialised chemical tanker to be delivered in 2013 – 245m.

- RoRos:
  - Four vessels built in 1982-83 – SR38m each.

Bull-case scenario

Table 7 : Bull-case SOTP valuation

	Value(SRm)	Per Share (SR)	% of Asset Value	Valuation Methodology
VLCCs	7,887	25.04	121%	DCF
Chemical Carriers	1,654	5.25	25%	DCF
Bahri Dry Bulk	224	0.71	3%	DCF
RoRo's	156	0.50	2%	DCF
Corporate Expenses	-679	-2.15	-10%	DCF
Petredec	498	1.58	8%	10x normalised earnings in line with average historical multiple
Investments in financial instruments	78	0.25	1%	Book Value
Total EV	**9,819**	**31.17**	**151%**	
Net Debt	3,020	9.59	46%	Net debt as of 31/12/2010
Minority Interests	289	0.92	4%	Minority Interest as of 31/12/2010
Total Equity Value	**6,510**	**20.67**	**100%**	
Shares Outstanding	315			
Equity Value per Share	**20.67**			
Current Price	15.00			
Upside/Downside	37.8%			

Source: Company data, Rasmala forecasts

Main assumptions

- VLCCs – We forecast a faster than broadly expected recovery in VLCC rates by assuming rates begin to recover in 2012, as opposed to 2013. We forecast VLCC average revenue per day of US$64,138 in 2012, US$75,041 in 2013, US$88,549 in 2014 and US$92,976 in 2015.

Table 8 : Global shipping company comparables

All in US$ millions			Price	Market	Enterprise	EBITDA (USD)		EPS (USD)		EBITDA Margin		EV / EBITDA			P/E	
Except per share data	**Ticker**	**Country**	**2-Mar-11**	**Cap**	**Value**	**2011E**	**2012E**	**2011E**	**2012E**	**2011E**	**2012E**	**2011E**	**2012E**	**2010**	**2011E**	**2012E**
Developed																
Orient Overseas Intl Ltd	316 hk equity	Hong Kong	$66.30	$5,557	$4,462	$932	$1,079	$0.97	$1.17	15%	15%	4.8x	4.1x	N.A.	9.2x	7.6x
Neptune Orient lines Ltd	nol sp equity	Singapore	$2.10	$4,201	$4,626	$818	$1,006	$0.18	$0.23	8%	9%	5.7x	4.6x	9.1x	9.3x	7.2x
Teekay Corp	tk us equity	Canada	$34.21	$2,538	$8,324	$815	$875	$0.43	$1.45	42%	44%	10.2x	9.5x	19.8x	81.1x	24.1x
Frontline Ltd	fro us equity	Bermuda	$26.78	$2,124	$4,854	$392	$442	$0.38	$0.92	50%	54%	12.4x	11.0x	15.2x	72.6x	29.7x
Ship finance Intl Ltd	sfl us equity	Bermuda	$20.48	$1,649	$3,518	$225	$262	$1.95	$1.87	69%	75%	15.6x	13.4x	9.9x	10.7x	11.1x
Golar lng Ltd	glng us equity	Bermuda	$18.93	$1,323	$2,534	$203	$240	$1.25	$1.60	70%	72%	12.5x	10.6x	56.8x	15.7x	12.3x
Nordic Amer Tanker Shipping	nat us equity	Bermuda	$24.20	$1,168	$1,226	$79	$114	$0.26	$0.85	53%	62%	15.5x	10.7x	N.A.	97.6x	29.2x
Euronav SA	eurn bb equity	Belgium	$12.36	$873	$2,201	$240	$246	($0.42)	($0.13)	48%	48%	9.2x	8.9x	33.6x	N.A.	N.A.
Knightsbridge Tankers Ltd	vlccf us equity	Bermuda	$24.20	$593	$734	$71	$71	$1.77	$1.74	73%	73%	10.4x	10.4x	12.4x	14.2x	14.4x
DHT Holdings Inc	dht us equity	Jersey	$4.70	$300	$507	$61	$61	$0.39	$0.40	62%	61%	8.3x	8.3x	35.9x	11.9x	11.6x
General Maritime Corp	gmr us equity	United States	$2.62	$233	$1,489	$141	$164	($0.75)	($0.18)	47%	48%	10.6x	9.1x	N.A.	N.A.	N.A.
Concordia Maritime AB-B SHS	ccorb ss equity	Sweden	$2.97	$143	$380	$42	$44	$0.34	$0.37	46%	47%	9.1x	8.7x	12.8x	8.8x	8.0x
Emerging Markets																
China Shipping Development-h	1138 hk equity	China	$1.28	$4,789	$6,288	$679	$825	$0.10	$0.13	32%	33%	9.3x	7.6x	24.2x	11.0x	8.8x
National Shipping Co Of/The	nscsa ab equity	Saudi Arabia	$3.53	$1,184	$2,062	$199	$237	$0.46	$0.63	33%	35%	10.3x	8.7x	11.1x	8.4x	6.1x
Odfjell SE-A SHS	odf no equity	Norway	$53.25	$821	$2,212	$234	$284	$0.32	$0.91	18%	20%	9.4x	7.8x	N.A.	29.4x	10.4x
Tsakos Energy Navigation Ltd	tnp us equity	Greece	$9.57	$433	$1,695	$169	$227	$0.27	$1.17	45%	52%	10.0x	7.5x	12.3x	35.1x	8.1x
Gulf Navigation Holding	gulfnav uh equity	UAE	$0.09	$141	$319	$34	$38	($0.00)	$0.00	55%	58%	9.4x	8.4x	N.A.	N.A.	19.6x
National Shipping (Internal)	nscsa ab equity	Saudi Arabia	$3.53	$1,184	$2,062	$199	$227	$0.20	$0.22	27%	29%	10.4x	9.1x	11.1x	19.2x	17.7x
Group Average										**45%**	**47%**	**10.2x**	**8.8x**	**21.1x**	**29.6x**	**13.9x**
Group Median										**47%**	**48%**	**10.0x**	**8.7x**	**14.0x**	**13.1x**	**11.1x**

Source: Company data, Bloomberg forecasts

Investment view

Investment positives include NSCSA's current mix of charter contracts, which provide partial defence against a depressed shipping rate environment; risks include rising bunker fuel costs, Middle East instability and lower OPEC production.

Investment positives

Investment positives include NSCSA's current mix of charter contracts that provide partial defence against a depressed shipping rate environment, the company's ability to engage in triangulation to provide incremental revenue and its cheap access to finance.

Partially defensive against depressed shipping rate environment

Thirty-five percent of NSCSA's VLCC fleet and 77% of its chemical fleet are under fixed time charter contracts. Of the VLCC fleet, one vessel is hired to RWE Supply and Trading on time charter for three years beginning May 2010 for a fixed rate of US$37,000 per day, three vessels are hired to Hanjin Company on time charter for five years beginning 2009 for a fixed rate of US$50,000 per day and two vessels are hired to Euronav Company on time charter until mid-2011 for an undisclosed rate. Of the chemical carrier fleet, six vessels are hired to SABIC and one to Sipchem on time charter for unknown periods and rates, and three vessels are hired to Odjfell on bareboat lease for 10 years, with a purchase option after three years. As a result of these contracts, more importantly the chemical segment contracts, we see NSCSA as partially defensive to a depressed spot market environment for VLCCs and chemical tankers while still being able to benefit from a recovery in spot rates as 65% of its VLCC fleet continues to operate on spot. According to Morten Arntzen, the CEO of OSG, using a time series analysis, over the long term it is evident that the spot market is the more profitable option for large vessels.

Triangulation

Triangulation occurs when a chartered vessel, which is paid to travel from point A to point B and back to point A, engages in a combination trade that allows it to generate incremental revenue by travelling to point C to pick up more cargo, dropping it off at point D and then returning to point A. The most common triangulation trade route is from the Arabian Gulf to the US Gulf, ballast through to West Africa to pick up supply, on to China to deliver and then ballast back to the Arabian Gulf. Triangulation increases revenue-making days, as well as the productivity and efficiency of vessels. Triangulation, which used to be more popular in the dry bulk trade, has become more customary in the VLCC trade owing to increased production in West Africa and growing demand from China and the Far East. We believe that NSCSA engages in triangulation and that it is a large part of the company's ability to generate average daily revenue in excess of market rates, particularly in 2009 and 2010.

Higher OPEC production

VLCC tonnage demand is driven by OPEC production, which is in turn driven by global oil demand growth. Longer-term demand projections have improved significantly on improving longer term prospects for the global economy driven mainly by growth in non-OECD. Drewry estimates oil consumption growth of 1.2% in 2012, 1.1% in 2013 and 1.1% in 2014, accompanied by production growth of 1.7% for 2012, 0.7% in 2013 and 1.5% in 2014. As a result of this forecast growth, Drewry estimates tonnage demand growth of 7.0% pa in 2012-14. Note that the main driver of Drewry's production growth estimate is OPEC, with a production growth CAGR of 3.2% in 2010-14, while non-OPEC production growth projected CAGR is only 0.4% for the same period.

Exposure to Saudi Arabian chemical industry

Through its 80% interest in NCC, NSCSA should benefit from the growing Saudi Arabian chemical industry as the country reshapes its petrochemical industry. The emphasis in Saudi Arabia is to move further downstream in petrochemical production. This is evidenced through the Saudi Arabian government's support with new investments downstream of basic cracker derivatives to diversify the economy and create employment opportunities. Saudi Arabian petrochemical plants also pose an advantage over global peers due to their lower feedstock costs. These factors, accompanied by higher demand from Asia, should keep petrochemical production growth strong and plant utilisation rates high. We believe NSCSA is correctly positioned to capitalise on this

growth. Saudi Arabia reported that petrochemical exports grew 17.2% in volume last year, with the country shipping 30.7m metric tons of petrochemicals from its ports in 2010, up from 26.2m tons in 2009. NSCSA hence poses an advantage over other chemical shippers, owing to its Saudi Arabian petrochemical exposure and its strategic partner in NCC, SABIC, which owns the remaining 20%.

Cancellation of new builds right time

From May to September 2010, NCC cancelled a total of seven new ship-building contracts due to delays. These cancellations resulted in collected instalments of SR285m for the first two and a further SR646.7m for the following five. Had the ships been delivered, the total commitment would have been about SR1.32bn, or approximately SR188m per ship. The average price for a new build has fallen from this SR188m to SR161m. The returned cash and drop in new build cost will benefit NSCSA as it continues with its expansion; it has already purchased two of the cancelled boats at the lower price.

Financed at attractive rates

As of end-2010, NSCSA had total debt of SR4.14bn, with Murabaha Finance and commercial loans representing 61%, or SR2.54bn, and the Public Investment Fund (PIF) representing the balance of 39%, or SR1.603bn. Total interest costs as of end-2010 including income statement costs and capitalised interest on the balance statement amounting to SR62.54m (compared to SR100.8m in 2009), or an average cost of debt of 1.4% (compared to 2.32% in 2009). As the company does not publish its cost of interest, we back out a rate of 0.20-0.50% for the debt from the PIF and 2.0-3.0% for the amount from Saudi Arabian banks. NSCSA hence has a cost advantage over other shipping companies due to its cheap access to capital, in particular from its largest single shareholder, the PIF, which is government owned.

Investment risks

Investment risks include rising bunker fuel costs, Middle East instability and lower OPEC production, potential for piracy disruption and an oversupply of VLCC hampering rates over the short to medium term.

High fuel costs

Spot market vessel operators are exposed to bunker fuel expenses in that they must bear bunker fuel costs. In contrast, under charter agreements bunker fuel costs are generally passed on to the charter operators. In strong tanker markets, spot operators are generally able to pass a portion of these costs on through higher spot rates; however, in a weak tanker market, as currently, operators are less able to pass on higher bunker fuel costs because they do not have the ability to boost rates as readily as they would in a stronger market. NSCSA is hence exposed to bunker fuel costs for 65% of its VLCC fleet and 100% of its RoRo fleet.

Bunker fuel, the largest cost driver for a tanker operator, recently increased to approximately US$600 per ton, up from about US$450 per ton a year ago. Bunker fuel prices rise in line with a comparable trend in oil prices. We forecast growth in oil prices will rise to US$100/bl in 2011, driven by strong growth in non-OECD economies accompanied by a more recent lack of investment in oil production. As a result, we expect growing pressure on bunker fuel costs for NSCSA, which accounted for 30.5% of operating expenses in 2009 and 39.1% in 2010. If bunker fuel rates were to recover to their peak levels of approximately US$750 a ton in 2009, this would place downside pressure on the valuation; however, growth in bunker prices is generally supported by growth in oil demand, which is generally supportive of higher VLCC shipping rates. In addition, during periods of higher bunker fuel costs, companies may improve earnings by slow steaming; this involves ballasting at about half the usual speed to save up to 50% on bunker fuel costs, although this comes at a cost of adding days to the voyage.

Middle East instability and lower OPEC production

Along with Middle East instability comes the potential for shutdowns in OPEC oil production. As a result of the revolt in Libya, executives estimated that at least half of Libya's 1.6m barrels a day of oil output had been shut down. This is a problem for VLCC operators that depend on OPEC production to support shipping rates. Lower OPEC production means less tonnage demand, more tonnage supply and hence lower tanker rates. OPEC has said it stands ready to supply the market in case of a shortage; however, OPEC's spare capacity is of lower quality that Libyan crude.

Middle East instability and potential for disruption by pirates

NSCSA is based in a strategically important but unstable region. We have seen political turmoil spread through the Middle East where contempt for long-serving autocratic rulers fuelled by high unemployment has recently led to anti-government protest movements in Tunisia and Egypt which resulted in the dismantling of the governments in power. Most recently, there has been an outbreak of violent protests in Libya. The outcome in Libya is still unknown and potential investors fear a spill over to Saudi Arabia.

NSCSA's revenues rely heavily on the ability of their vessels to travel through the Strait of Hormuz, the Suez Canal and other international waterways. A disruption to the Suez Canal could force NSCSA to reroute vessels along the horn of Africa and into the Indian Ocean, increasing the chance of piracy and hijacking attacks. In November 2008, a Saudi Aramco crude oil tanker, *Sirius Star*, was hijacked by Somali pirates while passing through the Gulf of Aden, between Yemen and Somalia, through which 11% of the world's seaborne oil passes. In November last year, South Korea is reported to have paid the highest ransom to Somali pirates since they started attacking the strategic waterway, of US$9.5m, for the release of the crew of the *Samho Dream*, a South Korean crude oil tanker. Travelling via the India Ocean and along the west coast of Africa (particularly the Nigerian Delta and Equatorial Guinea) may increase vessel operating costs in that NSCSA may be inclined to obtain war risk insurance and engage in protection and security services.

Approximately 20% of the world's oil, or 40% of the world's seaborne oil trade, passes through the Strait of Hormuz. The strait is the only sea passage to the open ocean for large areas of the crude oil exporting Persian Gulf, more specifically Saudi Arabia. Closure of this passage would be extremely negative for NSCSA because it would hinder the company's ability to transport anything out of Saudi Arabia. Recent comments by Tehran's IRGC Navy commander suggest that if any country undermined the security of the region, it would have no hesitation in closing the Strait of Hormuz.

VLCC new build order book to hamper rates over the short to medium term

Globally there were 3,024 tanker vessels in the world fleet as of end-2010 with total tonnage of 377 million dwt. The world VLCC fleet (200,000 dwt+) at 547 vessels, while representing 18% of the global fleet, is responsible for 44% of the total dwt. The world Suezmax fleet (120,000-199,999 dwt each), at 410 vessels, represents 14% of the global fleet and is responsible for 17% of the total dwt. The world Aframax fleet (80,000-119,999 dwt each), at 860 vessels, represents 28% of the global fleet and is responsible for 24% of the total dwt.

There are currently 192 VLCCS (36% of current VLCC dwt), 156 Suezmaxes (39% of current dwt) and 139 Aframax tankers (17% of dwt) on the order book through to 2014, with much of that tonnage due over the next two years. Drewry shipping consultants estimate that 5% of the current total tanker fleet is single hulled and is expected to face Marpol trade restrictions from 2011. (Marpol trade restrictions state that all single-hull tanker vessels should not be operational from 2011) with the majority (approximately 60%) of this single-hull tonnage concentrated in the VLCC segment. Despite demolitions throughout 2011 and early 2012, the tanker fleet is expected to continue to grow quickly due to hefty order book deliveries. Drewry estimates capacity additions of 85.4m dwt over the next two years and as a result, tonnage supply is expected to grow robustly, 8.5% in 2011 followed by a further 7.0% in 2012. Post 2012, the pace of tonnage supply is expected to slow due to a lighter order book schedule, driven mainly by weak freight market conditions.

Potential positive catalysts

Potential catalysts include higher shipping rates as a result of key route disruptions and a sooner-than-expected recovery in global oil demand to contest an oversupply in the tanker market.

Higher shipping rates as a result of key route disruptions

Approximately 2.5% of the world's seaborne oil passes through the Suez Canal, or 1.1m barrels per day. Disruptions to key shipping routes, particularly in the Suez Canal, is negative in the sense that vessels have to be rerouted through more dangerous routes, but tanker operators may benefit through higher shipping rates. A disruption to the Suez Canal and diversion through the Indian Ocean would mean longer voyage times for ships. Particularly for ships from the Gulf to the US, this route would add an estimated additional 25-30 days and for ships from the Gulf to

Europe, an estimated additional 15-20 days. Additional days mean longer ton miles and higher utilisation rates, which could lead to a reduction in current tanker market overcapacity and improved tanker rates. Over the longer term, the VLCC market is most likely to benefit from a closure as VLCCs are most commonly used for longer routes due to size efficiency. Another factor that could increase rates as a result of a disruption is higher storage of liquid cargo due to fears of regional instability and hence less shipping capacity.

Sooner-than-expected recovery in global oil demand

According to the International Energy Agency (IEA), world oil consumption will grow 1.5m barrels a day this year, or 1.7%, to 89.3m per day. This revised estimate is a gain of 140,000 barrels on January's estimate and the IEA cites that the increase is driven by developing nations in Asia and signs of recovery in North America. Any increase in crude oil demand beyond our estimates may lead to higher OPEC production and hence greater demand for tonnage supply, which would result in a quicker-than-expected recovery in shipping rates. We expect rates to increase in 2013 in our base case, but we consider this scenario plays out earlier in our bull case, in which we begin pricing them in 2012.

Company dynamics

The National Shipping Company of Saudi Arabia was established in Riyadh by royal decree in 1979 as the first national carrier. It is shipping conglomerate that buys, charters and operates vessels to transport crude oil, LPG, petrochemicals and general cargo.

The National Shipping Company of Saudi Arabia (NSCSA)

NSCSA was established by royal decree in 1979 as Saudi Arabia's first national carrier

The company, along with its affiliates, covers more than 150 ports in the Gulf, the Mediterranean, Europe, North and South America, Asia, and Australia.

Established as a general cargo carrier, NSCSA diversified into chemical tanker operations in 1986

Since launching its operations in 1979 and having operated solely in the general cargo business, the company diversified into chemical tanker operations in 1986, which it further expanded in 1990 by establishing National Chemical Carriers (NCC), a limited liability company with 80% ownership by NSCSA, and 20% by Saudi Basic Industries Corporation (SABIC). In 1993, NSCSA (America) Inc was established to serve as the general agent for NSCSA in North America for the liner service between the US, Canada, Middle East, the Indian subcontinent and Eastern Mediterranean regions.

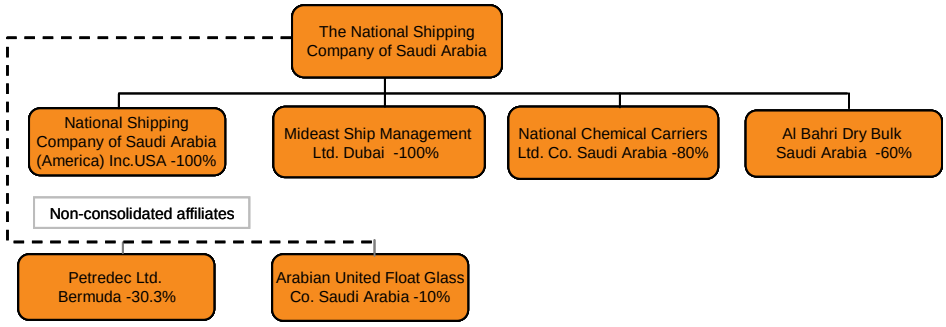
By 1995, the company's operations included crude oil transportation

In 1995, the company expanded its operations to crude oil transportation and in 1997, with the objective of conducting its own ship management services, it founded Mideast Ship Management for the technical management of the vessels of NSCSA and its affiliates. In 2005, the company ventured into transporting LPG by acquiring a 30.3% stake in Petredec.

NSCSA plans to further diversify its business activities to include dry bulk cargo transportation

In 2009, the company signed a joint venture agreement with Arabian Agricultural Services Company (ARASCO), the largest dry bulk importer in the region, to establish a SR200m limited liability company for shipping dry bulk cargo. NSCSA holds 60% of the company and ARASCO holds the remaining 40%. The new company was incorporated on 28 August 2010 and was NSCSA's initial venture into the dry bulk shipping market. The company's mandate is to purchase five Panamax-size vessels not older than five years of age and should operate one year from the signing of the contract in August 2010. Financing has already been arranged with local banks as well as the PIF, which owns 28% of NSCSA.

Figure 1 : NSCSA's group structure



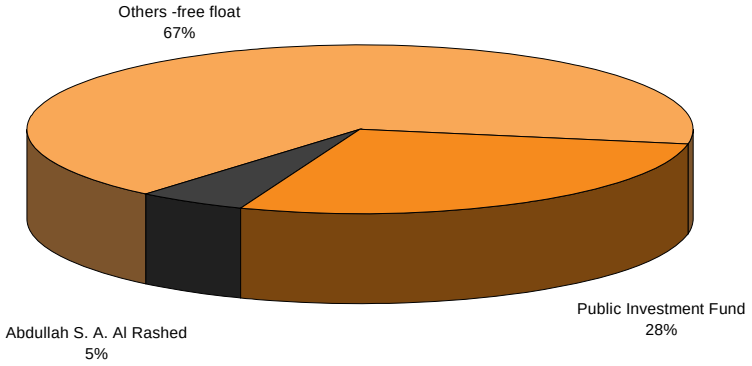
Source: Company data

At present, the company owns 17 VLCCs, 13 petrochemicals carriers and four Ro-Ro vessels. The company has contracted for 12 more petrochemicals carriers and expects to take delivery of these over 2011-13. NSCSA is among the top 10 VLCC owners in the world and a global leader in the transport of bulk petroleum and chemicals.

The Public Investment Fund holds 28.1% of the company

The government of Saudi Arabia, through the PIF, holds 28.1% of the company's equity, followed by 5.3% held by Abdullah S.A. Al Rashed. The free float of the company as of 3 March 2011 was 66.6%. NSCSA is listed on the Saudi Stock Exchange.

Chart 2 : The PIF owns 28.1% of NSCSA

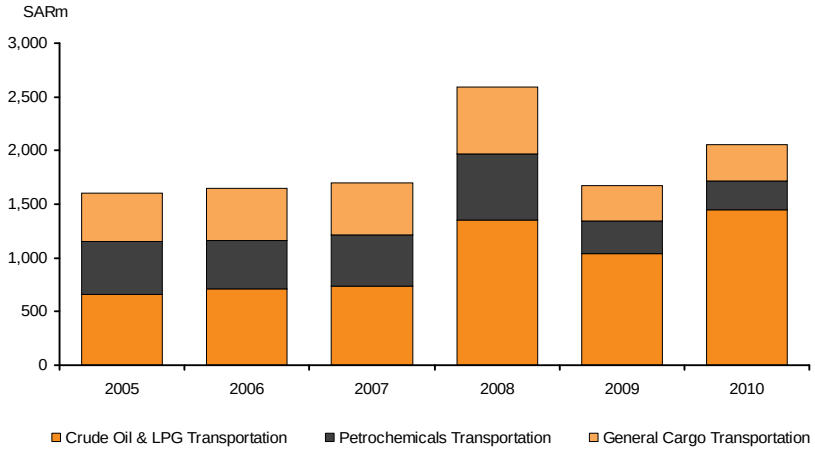


Source: Bloomberg

The Crude Oil & LPG Transportation segment accounts for the bulk of the company's top line

Of its three segments, the Crude Oil & LPG Transportation segment's contribution is the highest in terms of revenue. The segment's contribution increased from 62.2% in 2009 to 70.5% in 2010.

Chart 3 : Crude oil & LPG transportation is NSCSA's largest contributor to revenue



Source: Company data

Crude Oil & LPG transportation

Through this segment, the company operates 17 doubled-hulled VLCCs with a total capacity of 5.26m dwt. The fleet is operated on the basis of long-term time charter contracts and in the spot market.

Table 9 : NSCSA's VLCC fleet is relatively young

Number	VLCC name	Year of manufacture	Type	Weight (static tons)	Length (m)	Width (m)	Number of tanks	Speed (knots)	Age* (years)
1	Ramlah	1996	Double-hull	300,361	340	56	17	15.0	15.10
2	Ghawar	1996	Double-hull	300,361	340	56	17	15.0	14.80
3	Watban	1996	Double-hull	300,361	340	56	17	15.0	14.52
4	Hawtah	1996	Double-hull	300,361	340	56	17	15.0	14.35
5	Safaniyah	1996	Double-hull	300,361	340	56	17	15.0	14.14
6	Harad	2001	Double-hull	302,700	333	58	17	17.1	9.39
7	Marjan	2002	Double-hull	302,700	333	58	17	17.1	9.06
8	Safwa	2002	Double-hull	302,700	333	58	17	17.1	8.72
9	Abqaiq	2002	Double-hull	302,700	333	58	17	17.1	8.32
10	Wafrah	2007	Double-hull	318,000	333	60	17	16.7	4.02
11	Leyla	2007	Double-hull	318,000	333	60	17	16.7	3.44
12	Jana	2008	Double-hull	318,000	333	60	17	16.7	2.50
13	Habari	2008	Double-hull	318,000	333	60	17	16.7	2.38
14	Kahla	2009	Double-hull	318,000	333	60	17	16.7	1.98
15	Dorra	2009	Double-hull	318,000	333	60	17	16.7	1.82
16	Ghazal	2009	Double-hull	318,000	333	60	17	16.7	1.66
17	Sahba	2009	Double-hull	318,000	333	60	17	16.7	1.41
			Total capacity	**5,256,605**				**Average age**	**7.51**

*Age calculated as of 3 March 2011
Source: Company data

The contracted building cost of the six VLCCs that were delivered in 2008 and 2009 was SR2.7bn (US$719.8m). In the global market, according to UNCTAD's 'Review of Maritime Transport 2010', the cost of building a new VLCC with 300,000dwt capacity was US$153m in 2008; this dropped to US$116m in 2009. Drewry estimates the cost of a newbuild in 2010 to have been US$103m. Meanwhile, second-hand prices of VLCCs in 2010 for 5 years were US$86.

Six VLCCs are time-chartered; the other 11 VLCCs are operated in the spot market

By end 2010, of the 17 carriers, six were chartered on limited-term contracts to leading shippers, of which three were chartered to Korean Hanjin Company, two to Belgium Euronav Company and one to German based RWE AG for an amount of SR151m for three years.

Balanced strategy to minimise risk of market price fluctuations in the shipping industry

The other 11 carriers are currently operated in the spot market and NSCSA's major customers in this market included Vela, Shell, BP, Chevron and Exxon Mobil. While trades on spot markets add volatility to NSCSA's top line, the company is also assured of a stable income from its time-chartered vessels.

A relatively younger VLCC fleet than in the global market and the additional capacity from new vessels position NSCSA to earn favourable income in the future

NSCSA had a relatively younger fleet of 7.5 years by March 2011

NSCSA's average fleet age as of 1 January 2009 was 7.12 years compared to the average age of total oil tankers in the global market as of 1 January 2009 of 17.55 years and 17.03 years as of 1 January 2010, as reported by UNCTAD (compiled from data supplied by Lloyd's Register - Fairplay) in its 'Review of Maritime Transport 2010' report. The company's average fleet age slightly increased to 7.5 years by March 2011. A relatively younger fleet that is fuel efficient and the added new capacity help it earn higher income in the growing seaborne transportation market.

Global crude tanker demand is recovering, but slowly

Crude tanker demand is largely driven by OPEC production, as well as an increase in ton miles and oil inventories. OPEC, however, has been maintaining its official production cut amid high inventories in global markets. On a positive note, however, demand for crude is increasing from developing economies such as India and China, thus increasing tanker demand from these regions.

OPEC's oil production is a key driver of tanker demand

According to industry analysts, oil production by OPEC has an impact on tanker demand that is far more substantial than production by non-OPEC countries. This was evident in early 2009, when oil prices were low and OPEC countries complied with the production quota, and this reduced spot market tanker demand by as much as 13% compared to 2008.

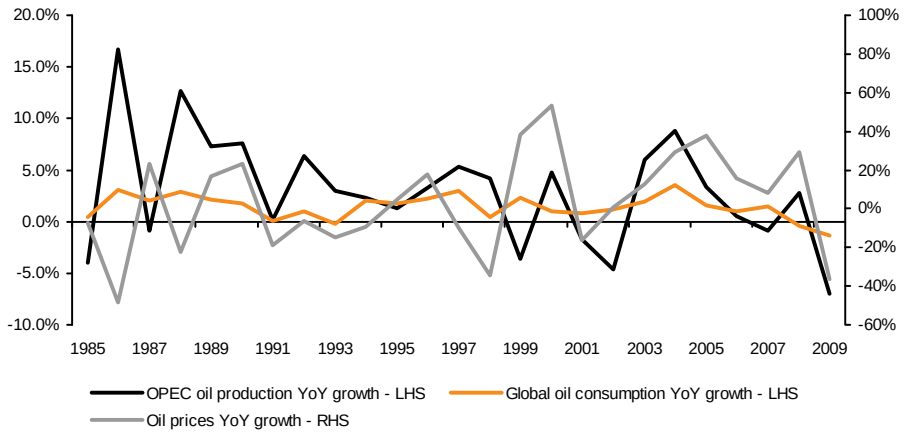
Increase in production by OPEC countries leads to increase in tanker demand

OPEC's official oil production quota remained 24.845mbpd, as agreed by member countries in 2008. However, when oil prices increase, OPEC countries tend to cease to comply with quotas and produce more. It is estimated that around 1.235mbpd of oil is overproduced, with average oil prices averaging US$79 a barrel in 2010 (EIA Energy Outlook). Higher production means higher demand for oil tankers to transport the oil, which, in turn, strengthens freight rates.

OPEC expects global oil demand to increase in 2011

OPEC in February 2011 revised its forecast for world crude oil demand to 87.74m bpd this year, a 1.62% yoy increase of 1.4m barrels. Historical data indicates that OPEC may increase its production quota in line with its expectations of global demand.

Chart 4 : Growth in OPEC crude oil production yoy, global oil consumption and crude price, 1985-2009



Source: BP Statistical Review of World Energy 2010

Table 10 : OPEC expects global crude oil demand to increase 1.62% in 2011

mbpd	2004	2005	2006	2007	2008	2009	2010	2011F
World oil demand	82.6	84.1	85.2	86.5	86.0	84.5	86.3	87.7
YoY	-	1.82%	1.31%	1.53%	-0.58%	-1.74%	2.13%	1.62%

Source: OPEC Monthly Oil Market Report, February 2011

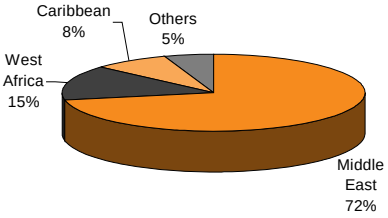
Sharp decline in floating storage in the second half of 2010 contributed to tanker fleet oversupply

Higher global inventories of crude oil last year led to lower production. Floating storage further increases inventories as producers use tankers to store oil in a well-supplied market. Oil producers prefer this option for the purpose of controlling oil prices and for speculative purposes. Tanker rates increased in the first half of 2010 in response to a strong economic recovery and high levels of floating storage, which lessened the impact of a tanker fleet oversupply, but the second half of 2010 experienced a sharp decline in floating storage due to the increasing shipping rates. Drewry estimates that as of December 2010, short-term global floating oil storage was 56m barrels, down from 64m barrels in November.

VLCCs play a major role in the crude oil transportation market

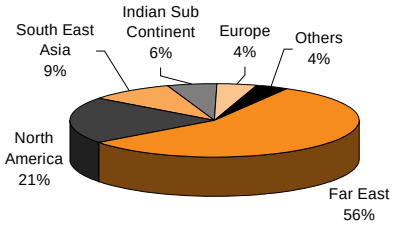
According to Lloyd's Shipping Economist, the Middle East continued to dominate the VLCC cargo export market, accounting for 76% of total cargo in 2009. The Middle East was followed by West Africa (13%) and the Caribbean (5.5%). When translated into ton miles, the Middle East accounted for 72%, West Africa 15%, and the Caribbean 8%.

Chart 5 : Leading VLCC export regions in 2009 (bn ton miles)



Source: Lloyd's Shipping Economist, June 2010

Chart 6 : Leading VLCC import regions in 2009 (bn ton miles)



Source: Lloyd's Shipping Economist, June 2010

Where individual VLCC routes are concerned, the route from the Middle East to the Far East made up 43% of total demand in terms of cargo tons and ton miles. The Middle East to North America, a much longer route, accounted for 16%.

At present, VLCC owners also resort to slow steaming to save on bunker fuel costs amid lower tanker demand.

Table 11 : VLCC routes with the highest tonnage and ton miles 2009

Leading VLCC routes 2009		Leading VLCC routes 2009	
(m tonnes)		(bn tonne miles)	
Middle East - Far East	383	Middle East - Far East	2,430
Middle East - North America	77	Middle East - North America	914
Middle East - South East Asia	77	West Africa - Far East	451
Middle East - Indian sub-continent	55	Middle East - South East Asia	234
West Africa - Far East	47	Mid-East - Europe	219
West Africa - North America	33	West Africa - North America	189
		Caribbean - Far East	161
		West Africa - Indian sub-continent	148

Source: Lloyd's Shipping Economist June 2010

The route from the Middle East to the Far East led demand for VLCC tankers in terms of highest tonnage and ton miles in 2009

More of Saudi Arabia's crude oil is heading towards the Far East after the economic crisis

During 2008, the Saudi Arabia remained the top oil producer in the world, with a 13.1% share in global oil production, and contributed 29.5% to OPEC's total production. According to Lloyd's Shipping Economist, US imports of Saudi crude oil slipped to less than 1mbpd in 2009 for the first time since 1988. More of Saudi Arabia's crude is heading east, particularly to China, with exports to China close to overtaking exports to the US. China's demand for crude oil has continued to rise, and imports averaged 8.95mbpd in 2010.

Crude tanker market is currently oversupplied

Weaker tanker demand coupled with deliveries of new buildings of tankers is keeping the crude tanker market oversupplied at present. In 2011, crude tanker supply is expected to continue to outpace demolition numbers, despite single-hull regulations restricting trade opportunities for older units. Crude tanker tonnage supply is expected to grow 6.6% in 2010 and 8.5% in 2011. After 2013, the number of new deliveries is forecast to slow down to more modest levels.

Table 12 : Tanker fleet by hull type (000 dwt)

Size (dwt)	Double hull		Double bottom		Double sides		Single hull		Total		% fleet
	No	Dwt	No	Dwt	No	Dwt	No	Dwt	No	Dwt	single hull
10-50,000	590	22,374	27	815	25	985	132	3,473	774	27,647	13%
50-80,000	401	28,060	4	214	11	747	17	1,064	433	30,085	4%
80-120,000	821	87,449	4	431	11	1,079	24	2,253	860	91,212	2%
120-200,000	393	60,375	4	625	1	152	12	1,758	410	62,911	3%
200,000+	500	152,377	0	0	3	914	44	12,106	547	165,397	7%
Total	2,705	350,635	39	2,085	51	3,877	229	20,654	3,024	377,252	5%

Source: Drewry Tanker Forecaster 4Q10

Table 13 : Tanker orderbook and delivery schedule

Size (dwt)	2011		2012		2013		2014+		Total		% of
	No	Dwt	No	Dwt	No	Dwt	No	Dwt	No	Dwt	fleet
10-50,000	66	2,409	23	966	3	90	0	0	92	3,465	12.5%
50-80,000	69	4,646	27	1,579	17	1,127	0	0	113	7,352	24.4%
80-120,000	81	8,835	41	4,542	10	1,087	7	781	139	15,246	16.7%
120-200,000	70	10,852	53	8,325	28	4,391	5	688	156	24,255	38.6%
200,000+	95	29,501	58	18,392	32	10,133	7	2,200	192	60,226	36.4%
Total	381	56,243	202	33,804	90	16,828	19	3,669	692	110,543	29.3%

Source: Drewry Tanker Forecaster 4Q10

According to Drewry, of the total global deliveries of VLCCs expected in 2010, around 40% would not be delivered on schedule (also referred to as slippage). This had a positive effect on tanker supply in an already oversupplied market with weaker demand.

Table 14 : Tanker fleet delivery schedule

		10-50k		50-80k		80-120k		120-200k		200k+		Total	
		No	Dwt	No	Dwt	No	Dwt	No	Dwt	No	Dwt	No	Dwt
	Actual deliveries	33	1,264	50	3,499	50	5,482	26	4,110	18	5,483	177	19,838
2006	Order book schedule	80	3,339	72	4,758	49	5,338	21	3,310	16	4,849	238	21,593
	Slippage (as % of order book)	59%	62%	31%	26%	-2%	-3%	-24%	-24%	-13%	-13%	26%	8%
	Actual deliveries	34	1,265	53	3,669	55	6,079	25	3,998	29	8,965	196	23,976
2007	Order book schedule	80	3,315	73	4,756	50	5,500	21	3,369	32	9,741	256	26,681
	Slippage (as % of order book)	58%	62%	27%	23%	-10%	-11%	-19%	-19%	9%	8%	23%	10%
	Actual deliveries	37	1,383	47	3,337	68	7,423	15	2,355	40	12,436	207	26,934
2008	Order book schedule	73	3,064	58	3,776	70	7,656	20	3,143	37	11,308	258	28,947
	Slippage (as % of order book)	49%	55%	19%	12%	3%	3%	25%	25%	-8%	-10%	20%	7%
	Actual deliveries	50	2,153	44	3,144	97	10,637	46	7,317	53	16,345	290	39,567
2009	Order book schedule	76	2,942	65	4,248	101	11,080	61	9,544	62	18,792	365	46,606
	Slippage (as % of order book)	34%	27%	32%	26%	4%	4%	25%	23%	15%	13%	21%	15%
	Actual deliveries	31	1,325	33	2,268	67	7,412	41	6,358	55	16,886	227	34,249
2010	Order book schedule	75	2,897	46	3,012	96	10,505	60	9,452	73	22,526	350	48,392
	Slippage (as % of order book)	59%	54%	29%	25%	30%	29%	31%	33%	25%	25%	35%	29%

Source: Drewry Tanker Forecaster 4Q10

Vessel scrapping increased in 2010, somewhat offsetting demand/supply imbalance in tanker market

With the oversupply of tankers in the market, many ship owners resorted to scrapping older vessels during 2009. The number of tankers scrapped by end-2010, according to Drewry, was 15, compared to the 10 scrapped in 2009.

The number of single-hull vessels accounts for approximately 5% of the total tanker fleet, according to Drewry, of which approximately 60% of this single-hull tonnage is concentrated in the VLCC segment. Single-hull vessels are expected to face trade restrictions from 2011, so we expect the scrapping of these vessels to continue this year as the phase-out of single-hull vessels continues.

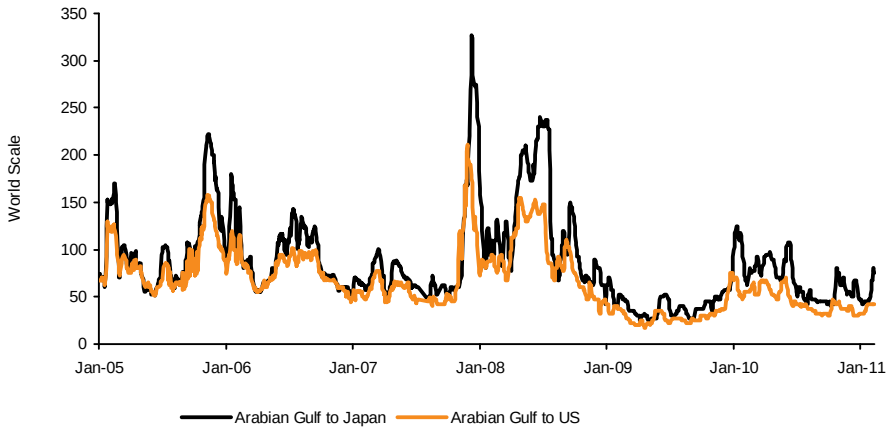
The crude tanker industry experienced a recovery in early 2010 and another deep drop toward the end of 2010

Lower demand for crude oil, excess tonnage in the tanker market and a sharp fall in crude oil prices drove freight rates for oil tankers down by the end of 2008. Prior to this, freight rates were high as a result of record-high oil prices that prevailed until 3Q08.

Lower tanker demand, resulting from a worsening economic crisis combined with high crude stock levels, further added to the drop in freight rates. For VLCC carriers, rates on all routes declined 60-70% from December 2007 to December 2008. Rates continued to fall well into 2009, but experienced a slight improvement in early 2010, followed by a drop late in the year.

According to Marsoft's Tanker Market Report 1Q2011, in the first six months of 2010, average VLCC spot earnings were about US$54,000, well above the lows seen in 2009 (US$11,000 per day in September 2009). However, for the second half of 2010, daily earnings on the Middle East/Japan route averaged US$22,000 per day, putting VLCC owners in the Middle East under pressure. The route from the Middle East to the Far East dominates the VLCC market and accounts for about two-thirds of spot VLCC fixtures.

Chart 7 : Dirty VLCC tanker rates for transport from the Arabian Gulf to the US and Japan on a rising trend after a sharp fall in 2009



Source: Bloomberg

NSCSA's investment in Petredec and the LPG market

In 2005, as part of its diversification strategy, the company acquired a stake in Petredec to venture into LPG transportation

To add further diversity to its business activities, in 2005 NSCSA ventured into the transportation of LPG by acquiring a 30.3% stake in Petredec for SR187.5m. A Bermuda-registered company incorporated in 1980, Petredec is one of the largest LPG traders and ship owners in the world. It controls a fleet of more than 77 gas carriers of various sizes. Some of these are owned by the company and the other carriers are chartered on spot and time charters. According to NSCSA's management, NSCSA and Petredec share a good relationship, with the Saudi firm being represented in its board of directors and executive committee, while NSCSA also plays a part in Petredec's strategy process.

Petredec has long-term contracts with the Middle East and Asian markets, such as the 10-year 1.5mt LPG supply contract to Indonesia

Petredec's maritime transport operations mainly cover Asia, Europe and the Caribbean. It operates out of various regional offices in Bermuda (head office), Barbados, Monaco, Singapore and Reunion Island. The company set up its Singapore office in 1994 to develop strong contracts and relationships with its downstream customers in Japan, Korea, China, the Philippines, Vietnam, Malaysia, Indonesia, Pakistan, Bangladesh, Australia, India and island nations in the Indian Ocean. It has also secured long-term supply and shipping contracts in the Middle East, Thailand, Malaysia, Indonesia and Singapore. One such contract is the 10-year contract to supply

LPG to Indonesia's national gas distributor, Pertamina, up to 2019. The contract was awarded in 2009 after Petredec beat 15 other competitors in the tender and will see Petredec supply 1.5mtpa. With the establishment of the Singapore office, Petredec entered the "Big Ship" market, and the company's growth in the VLGC and mid-size vessels has led to Petredec's holding 12% of all LPG exports from the Arabian Gulf by 2006.

To develop long-term relationships with its Japanese and Korean buyers, Petredec first entered the refrigerated trading market in 1999. It also established a supply base with several major Middle East producers better offer a flexible supply package based on the availability of shipping.

It purchased its first VLGC, *Maori Venture* (ex *Hourai Maru*), in 2007, followed by new buildings of VLGCs from HHI (Korea) and four new mid-size LPG vessels (22,000 cbm). In mid-2008, Petredec also completed the purchase of Chevron's downstream LPG activities on Reunion Island in the Indian Ocean in its first downstream venture.

Global LPG market driven by demand from the Asian region

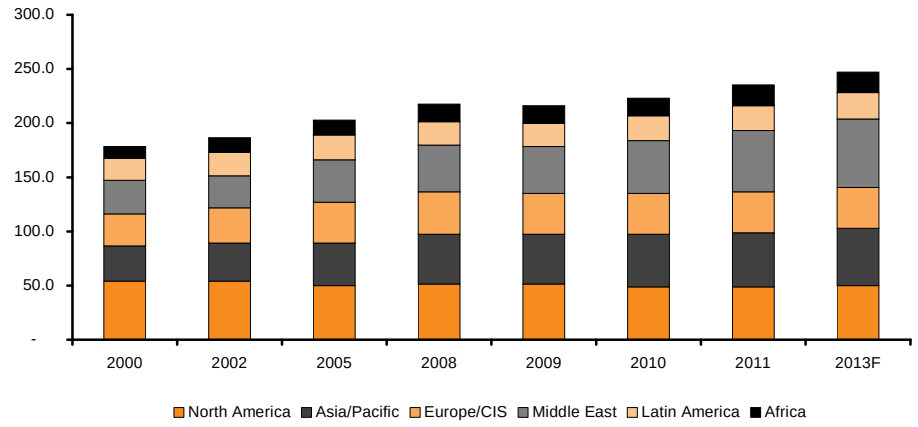
The LPG market is mainly supply driven, with LPG trade volume determined by exportable production of crude oil and gas. According to energy consultants Purvin and Gertz Inc, high naphtha prices have driven more petrochemicals companies to turn to LPG to lower their feedstock costs.

The Middle East supplied approximately 20% of the world's LPG production in 2010 and, according to Purvin and Gertz, very strong supply growth in the region will enable it to surpass North America and emerge as the largest LPG producing region in the world by 2011.

Overall global LPG supply will grow at 3.5% a year through 2013

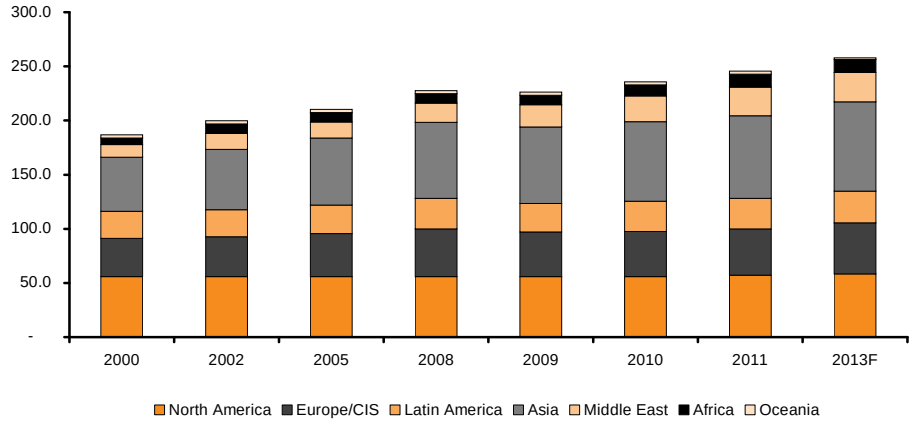
Purvin and Gertz expects overall global LPG supply to grow at an average of approximately 3.5% per year through 2013. Demand is also expected to grow, particularly in Asia and the Middle East. Asia is the largest consumer of LPG in the world, with an estimated 30% of global demand in 2010. Purvin and Gertz expects the use of LPG to continue to rise there due to its appeal as a clean fuel, along with greater access to LPG in the region. Demand in the Middle East has also been growing rapidly, to approximately 10% of total consumption in 2010, driven by the growing petrochemicals industry and the growth in residential and commercial sectors. This has reduced the need for Middle Eastern LPG producers to export LPG into traditional western markets. It has also led to pressure on Middle Eastern and Asian LPG prices and driven them higher.

Chart 8 : Global LPG supply actuals and forecasts, 2000-13F



Source: Purvin and Gertz

Chart 9 : Global LPG demand actuals and forecasts, 2000-13F



Source: Purvin and Gertz

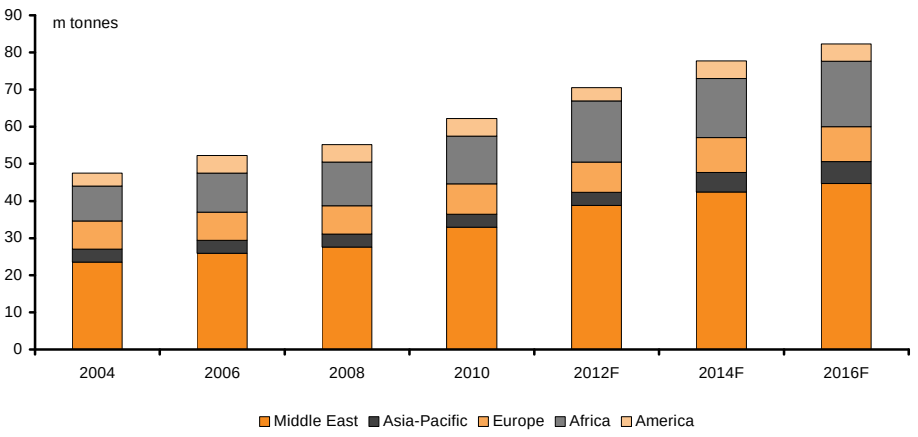
Saudi Arabia is the world's largest producer of LPG, with its exports mainly purchased by China

Saudi Arabia is the world's largest producer of LPG, but Qatar intends to increase its production from 8mtpa in 2010 to 12mtpa by 2012, which would make it the largest producer in the world. The UAE and Saudi Arabia are the main exporters of LPG in the region, but production has been driven mainly by domestic demand for LPG throughout the region. The demand for Saudi Arabia's LPG exports is mainly from China, which uses it as feedstock for its petrochemicals industry.

LPG carrier fleet reached a record 1,092 vessels by 1 May 2010, with a further 166 vessels on order

LPG is transported in VLGCs with a capacity of over 60,000cbm, large gas carriers (LGCs) with a capacity of 40,000-59,999cbm, mid-size gas carriers (MGCs) with a capacity of 20,000-39,999cbm, Handy carriers with a capacity of 5,000-19,999cbm, and small carriers with a capacity below 5,000cbm. According to the latest LPG World Shipping 2010 Yearbook, the LPG carrier fleet reached a record 1,092 vessels by 1 May 2010, with a further 166 vessels on order.

Chart 10 : Poten and Partners anticipate a market growth of 47% over 2008-15



Source: Poten and Partners

Low freight rates in February led to shipping lines idling several vessels

In March 2010, Bloomberg reported that BW Gas Ltd, the world's largest shipper of LPG, idled four tankers because low freight rates resulted in a loss of US$25,000 per day. The company intended to keep the carriers idling until the rates improved as it needed approximately US$30,000 per day to break even. According to the article, LPG cargoes have declined because of delays in natural-gas projects and reduced crude oil output by oil-producing countries.

According to Lorentzen and Stemoco, freight rates reached US$44.63 per ton by mid-June

On the other hand, according to Lorentzen and Stemoco, the Baltic Exchange Index price (BFX) for the 44,000-ton VLGC reference route from Ras Tanura (Saudi Arabia's main LPG port) to China, Japan, has advanced since 2010's low on 22 February when the rate fell to US$25.22/ton. Apart from a few price trend reversals since then, the Index climbed to US$44.63/ton by mid-June 2010. Later in 2010, the rate had a ton-container (TC) equivalent of US$30,000/day compared to US$5,500 in February. According to Lorentzen and Stemoco, ship owners are in a positive cash position with these rates. The highest level on record, according to the firm, was on 23 July 2008, when the Index was at US$81.64, corresponding to a TC equivalent of US$63,000/per day.

Petrochemicals transportation

Through its subsidiary National Chemical Carriers Ltd (NCC), the company engages in the transportation of petrochemicals. NCC was founded by NSCSA and Saudi Basic Industries in 1990, with an 80% stake owned by NSCSA. The company was set up to purchase, charter and operate petrochemicals tankers. Currently, the company has 13 vessels with 12 more being built and deliveries expected from 2011 to 2013. NCC is one of the largest petrochemicals shipping companies in the world and serves over 150 ports worldwide.

Table 15 : NSCSA's fleet of chemical carriers – operational and under construction

Number	Carrier	Year built	Weight (static tons)	Length (m)	Width (m)	Number of tanks	Speed (knots)	Age (years)
1	*NCC Makkah*	1995	37,500	183.1	32.2	22	16	15.68
2	*NCC Riyadh*	1995	37,500	183.1	32.2	22	16	15.68
3	*NCC Jubail*	1996	37,500	183.1	32.2	22	16	14.68
4	*NCC Najd*	2005	46,200	183.0	32.2	22	15	5.68
5	*NCC Hijaz*	2005	46,200	183.0	32.2	22	15	5.68
6	*NCC Tihama*	2006	46,200	183.0	32.2	22	15	4.68
7	*NCC Abha*	2006	46,200	183.0	32.2	22	15	4.68
8	*NCC Tabuk*	2006	46,200	183.0	32.2	22	15	4.68
9	*NCC Qassim*	2006	46,200	183.0	32.2	22	15	4.68
10	*NCC Rabegh*	2007	46,200	183.0	32.2	22	15	3.68
11	*NCC Sudair*	2007	46,200	183.0	32.2	22	15	3.68
12	*NCC Dammam*	2008	46,200	183.0	32.2	22	15	2.67
13	*NCC Hail*	2008	46,200	183.0	32.2	22	15	2.67
14	Hull # 501	Expected in 2011	45,000	183.0	32.2	22	15	-
15	Hull # 508	Expected in 2011	45,000	183.0	32.2	22	15	-
16	Hull # 509	Expected in 2011	45,000	183.0	32.2	22	15	-
17	Hull # 536	Expected in 2011	45,000	183.0	32.2	22	15	-
18	Hull # 537	Expected in 2011	45,000	183.0	32.2	22	15	-
19	Hull # 538	Expected in 2011	45,000	183.0	32.2	22	15	-
20	Hull # 539	Expected in 2011	45,000	183.0	32.2	22	15	-
21	Hull # 540	Expected in 2012	45,000	183.0	32.2	22	15	-
22	Hull # 541	Expected in 2012	45,000	183.0	32.2	22	15	-
23	Specialised chemical tanker	Expected in 2013	75,000	-	-	-	-	-
24	Chemical Tanker 1	Expected in 2011	45,000	183.0	32.2	22	15	-
25	Chemical Tanker 2	Expected in 2011	45,000	183.0	32.2	22	15	-
		Total capacity	**1,144,500**			**Average Age**		**6.83**

*Age calculated as of 3 March 2011
Source: Company data

At present, of the 13 delivered chemical tankers, three are leased to Odjfell under a bareboat capital lease agreement, another three operate in a pool with Odjfell, six are chartered to the Saudi Basic Industries Corporation (SABIC) and one to Saudi International Petrochemical Company(Sipchem).

During 2009, NCC sold three chemical tankers that were reaching the end of their useful lives. At the same time, the company reviewed the lease contract terms of several of its other tankers, which resulted in more favourable terms for the company.

On 4 July 2010, NCC signed a contract with Daewoo Shipbuilding and Marine Engineering Company of South Korea to build a specialised tanker for an estimated SR245m, which is expected to be delivered in 2013. The vessel will be a 75,000 dwt tanker comprising 31 fully segregated coated cargo tanks.

In May-September 2010, NCC decided to cancel a total of seven new ship-building contracts due to delays. These cancellations resulted in collected instalments of SR285m for the first two and a further SR646.7m for the following five. Had the ships been delivered, the total commitment would have been SR1.32bn, or approximately SR188m per ship. The average price for a new build has fallen from this SR188m to SR161m. The returned cash and drop in new build cost will benefit NSCSA as it continues with its expansion, already purchasing two of the cancelled boats in December 2010 at the SR 161m price tag.

NCC also has contracts with SLS Shipbuilding to build nine tankers that are expected to be

received in 2011-12.

NCC Odjfell (NCCO)

NCCO was incorporated to manage the combined fleet of chemical tankers of NCC and Odjfell

NCCO is a limited liability company owned equally by NCC and Odjfell SE, a Norwegian company engaged in shipping chemicals globally. NCCO was established in 2009 to operate the combined fleet of coated chemicals tankers of the two parties. These tankers will carry chemicals, vegetable oils, and clean petroleum products worldwide, with more focus on the growing trading activities in the Arabian Gulf region. NCCO commenced operations in early 2010.

Global petrochemicals tanker market

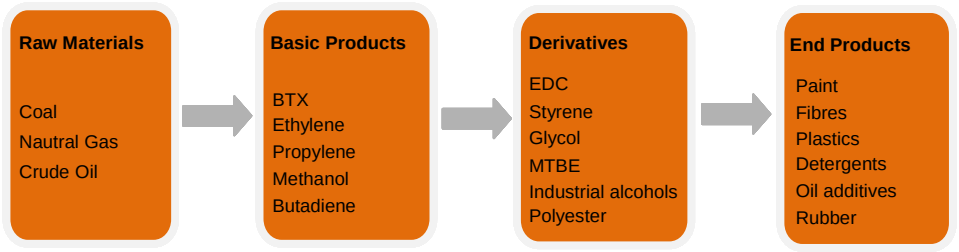
Demand for petrochemicals depends largely on the general economy and industrial production.

Asia, Africa, and the Middle East are emerging as major producers of petrochemicals

The petrochemicals market has seen healthy growth over the past decade, underpinned by global economic and industrial development. Historically, the US and Europe accounted for much of the production of petrochemicals, but recent years have seen a surge in production and production capacity in Asia, Africa and the Middle East, with Saudi Arabia being one of the leading players.

The MENA region focuses more on the production of base chemicals, while the production of derivatives and specialty chemicals is concentrated in the US and Europe.

Figure 2 : Coal, natural gas and crude oil are the raw materials used for the production of organic chemicals



Source: Odjfell 2009 annual report

Table 16 : Global chemical shipments have been increasing over the past decade

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
US	449.2	438.4	462.5	487.7	540.9	610.9	657.7	724.5	750.5	674.1
Canada	25.0	24.8	25.8	30.5	36.2	40.2	43.7	45.4	47.4	37.3
Mexico	26.2	26.8	26.7	25.8	34.4	40.0	44.2	46.4	51.5	43.6
North America	500.4	490.0	515.0	544.0	611.5	691.1	745.6	816.3	849.4	755.0
Brazil	43.6	38.8	37.3	45.5	60.3	72.3	82.6	103.5	122.2	103.3
Other	70.6	72.6	61.1	66.2	74.5	84.2	94.2	103.1	118.2	113.6
Latin America	114.2	111.4	98.4	111.7	134.8	156.5	176.8	206.6	240.4	216.9
France	76.9	77.1	80.7	99.6	111.4	116.7	122.4	138.9	158.5	135.4
Germany	116.0	114.2	117.6	144.9	164.6	172.8	186.9	222.3	261.5	212.8
Italy	60.1	59.3	65.6	76.5	87.0	89.0	94.8	105.4	121.8	105.3
UK	64.2	64.3	68.2	75.3	89.8	97.1	109.0	118.5	123.1	97.1
Belgium	27.0	26.5	28.0	35.3	40.4	42.0	45.4	51.2	61.6	52.4
Ireland	22.1	23.9	29.5	32.7	34.1	35.0	36.7	45.6	43.9	39.8
Netherlands	31.7	31.3	33.1	40.8	50.1	54.4	60.8	70.0	80.7	66.4
Spain	30.1	31.6	33.4	41.5	48.0	51.4	55.5	65.1	75.0	65.1
Sweden	11.3	11.1	12.7	15.7	17.5	18.4	20.3	21.0	22.2	17.7
Switzerland	18.1	19.4	23.9	27.8	30.3	31.0	32.5	36.9	45.8	42.3
Other	28.5	29.1	30.7	37.2	43.9	48.3	52.0	59.9	69.4	59.8
Western Europe	486.0	487.8	523.4	627.3	717.1	756.1	816.3	934.8	1,063.5	894.1
Russia	25.4	27.0	28.4	31.5	35.8	39.2	50.8	60.7	75.2	63.9
Other	21.2	22.8	24.5	29.9	38.7	45.2	53.5	64.3	79.1	59.3
Central/Eastern Europe	46.6	49.8	52.9	61.4	74.5	84.4	104.3	125.0	154.3	123.2
Africa & Middle East	59.6	57.2	59.8	73.1	88.0	101.5	112.6	127.7	151.3	131.6
Japan	245.9	213.6	202.0	224.2	250.1	259.8	260.6	261.7	311.1	285.9
Asia-Pacific excluding Japan	279.0	274.6	303.3	371.5	465.9	575.1	683.1	844.2	1,002.9	1,025.1
China	104.8	112.1	128.0	162.0	205.7	276.2	345.5	448.3	570.7	635.3
India	34.9	32.3	33.4	40.5	52.6	62.1	71.5	90.1	97.1	92.7
Australia	11.4	10.6	10.5	14.0	15.5	16.2	16.2	19.1	21.3	19.4
Korea	55.9	50.8	55.1	63.9	77.3	91.9	103.2	116.7	121.9	103.5
Singapore	9.3	9.2	12.3	16.0	20.4	21.7	25.0	27.5	29.7	27.9
Taiwan	29.4	26.9	28.6	34.4	45.3	50.0	54.1	64.1	68.5	59.1
Other Asia-Pacific	33.3	32.8	35.4	40.7	49.1	57.1	67.7	78.5	93.9	87.3
Asia-Pacific	524.9	488.2	505.3	595.7	716.0	834.9	943.7	1,105.9	1,314.0	1,311.0
Total world shipments	**1,731.7**	**1,684.4**	**1,754.8**	**2,013.2**	**2,341.9**	**2,624.5**	**2,899.3**	**3,316.3**	**3,772.9**	**3,431.8**

Source: American Chemistry Council data

Chemical tanker types and tanker demand

Industrial production, global refinery output, and refinery expansions are key drivers of chemical tanker demand

Chemical tankers can be ships with coated tanks or those made of stainless steel. Coated tankers typically carry commodity-type chemicals, but they may also carry clean petroleum products and vegetable oils, while ships with cargo tanks made of stainless steel are used to carry more specialised types of chemical products.

Chemical tanker demand is driven by industrial production, global refinery output, refinery capacity expansions, and consumer spending on gasoline and other clean petroleum products. Petrochemicals inventory levels also influence the demand for chemical tankers.

Industrial production, key driver of chemical tanker demand, fell rapidly in 2008 and 2009

The downturn in the chemicals markets let to rough market conditions for most chemicals tanker operators, owing to the reduction in the volumes to be transported along many of the trade routes. Demand from China, however, kept up tanker demand to the Far East, although return voyages were difficult to secure with demand being low from the US and Europe.

Refinery capacity expansions delayed by lower demand appear set to be carried out in the near future, subsequent to expected economic recovery

World refinery capacity has been on a continuous growth trajectory over the past decade, according the BP Statistical Review of World Energy 2010 report. In 2009, refinery capacity grew 2.2% yoy, from 88.7mbpd to 90.7mbpd. There would have been more capacity expansions, but many countries, including Saudi Arabia and China, delayed new plant openings scheduled during the year due to lower demand.

Future tanker demand will be boosted by capacity expansions a fair distance away from importing countries

With many new refineries planned to be opened in the Far East and Middle East, far away from the largest petrochemicals-consuming countries such as the US and Europe, the demand for tankers should increase, owing to the greater ton-mile effect. Reuters reports that PetroChina is planning to test run its 200,000 bpd in Qinzhou with plans to start operations in August this year. Saudi Arabia plans to commence operations at its Jubail refinery at end-2013.

Tanker demand during 2009 was weak due to low refinery throughput

Despite capacity growth, global refinery throughput declined during 2009 by 2%, largely due to a drop in production in the US and Europe. The fall in production was due to lower demand resulting from weak economic conditions which, in turn, led to weaker demand for petrochemicals tankers during the year.

Industry expects growth in the chemical industry in 2010

According to Chairman of the Gulf Petrochemicals and Chemicals Association and CEO and Vice Chairman of SABIC Mr Mohammed Al Mady, the chemical industry is set to grow 4.6% yoy in 2010 compared to a contraction of 4.6% in 2009.

Chemical tanker supply grew more slowly in 2010 than previous years

Tanker supply is largely dependent on the demand for tankers, the order book for new buildings, the scrapping of vessels and freight rate movements.

Table 17 : Chemical tanker supply and demand

	2007	2008	2009	2010F	2011F	2012F	2013F
Chemical tanker demand (mdwt)	36.5	36.4	36.4	37.3	38.5	39.6	41.6
% change	*1.4*	*-0.3*	*0.1*	*2.3*	*3.2*	*3*	*5.1*
Chemical tanker supply (mdwt)	59	61.5	72.3	78.5	84.4	87.8	88.4
% change	*-4.1*	*4.2*	*17.6*	*8.6*	*7.5*	*4*	*0.7*
Order book (mdwt)	25.4	22.3	18.6	12.7	n/a	n/a	n/a
% Fleet	*36.4*	*33.8*	*24.8*	*16.1*	*n/a*	*n/a*	*n/a*
Deliveries	7.3	10.5	9.2	9.4	6.1	2.1	0.4
Deletions	1.5	1.1	1.7	2.1	0.6	0.8	0.6

Source: Drewry Chemical Forecaster 3Q2010

In light of weaker demand for chemical shipments, new orders during 2009 were almost nonexistent

During 2009, the global chemical fleet expanded considerably, with a net growth of 9.2%, while the core fleet grew 8.9%, according to Odfjell. As a result, there was substantial overcapacity due to lower tanker demand and a drop in freight rates. Several new orders placed with shipyards in earlier years were cancelled during 2009, while new orders came to a complete halt. The order book at year-end for the deep-sea core segment was 26% of the current fleet, followed by stainless steel tankers at 23.5%.

According to Odfjell, if all ships scheduled to be delivered are actually delivered and the ships that need to be phased out are scrapped during the year (the phase-out period is 30 years for European-built tonnage and 25 years for Asian-built vessels), the deep-sea chemical carrier fleet should have grown 3.7% in 2010 and the core fleet by an estimated 10%.

According to Drewry, 84 chemicals tankers were demolished in 2009 compared to 58 in 2008, while an estimated 100 chemical tankers were demolished as of 3Q10.

Chemical tanker rates are still low compared to mid-2008

Freight rates on chemical tankers fell radically during 2009 as a result of excess supply and weaker demand.

Table 18 : Estimated chemical tanker rates: modern vessels (US$/day)

	IMO 2			
	Coated		Stainless	
Dwt	22-24,000	30-32,000	8-9,000	22-24,000
2007	17,688	21,675	13,900	23,000
2008	16,763	20,175	12,994	22,250
2009	11,913	12,938	8457	16,725
2010F	11,100	11,667	7900	15,333
2011F	11,655	12,250	8374	16,253
2012F	12,471	13,108	9044	17,554
2013F	13,718	14,418	10,129	19,660

Source: Drewry Chemical Forecaster 3Q2010

General cargo transportation

General cargo fleet will be replaced by 2013

This segment, also known as the liner business, has been in operation ever since the inception of the company. The company has four roll-on-roll-off (RoRo) vessels operating in this segment that carries full containers, and RoRo and project cargo from the US East Coast and Gulf Coast ports and Canada to Jeddah, Dammam, Dubai, Jawaharlal Nehru Port and Port Qasim. However, NSCSA views itself as a niche carrier specialising in under-deck business that comprises carrying RoRo and project cargo. The company also operates a container yard in the Jeddah Islamic Port and provides its customers freight forwarding services. At end-2010, the segment posted operating losses of SR38m. NSCSA recently announced that it will replace its current ageing fleet of four RoRo vessels, expected to exit the market in 2012, with a new fleet of RoRo vessels that will begin operations in 2013.

Table 19 : Specifications of NSCSA's general cargo fleet

Type	Number	Weight (static tons)	Width (m)	Length (m)	Draft (m)	Container capacity	Horse power	Speed knots
Containers/RoRos	4	42,600	32.29	236.95	11.12	2,050	27,600	18

Source: Company data

NSCSA signed four shipbuilding contracts and two additional optional contracts on 6 March 2011 with Hyundai MIPO of South Korea. The value of the contracts, including the two optional contracts, amounts to SR1,543m. In our valuation, we forecast the addition of four new RoRo vessels at an estimated cost of SR1,029m. The new ships will serve as a liner between the United States East Coast to the Middle East and Indian Subcontinent via Europe.

Container yard

To support its General Cargo Transportation segment, the company operates a container storage and repair yard covering an area of 120,000 sq m at Jeddah Islamic Port. This facilitates the rapid handling of containers to and from vessels and speeds up the clearance of customer shipments.

Table 20 : Containers and trailers owned by NSCSA

Number	Type	Owned
1	20ft standard container	2,828
2	20ft open-top container	333
3	20ft flat bed	87
4	40ft standard container	558
5	40ft high cube container	1,341
6	40ft open-top container	146
7	40ft flat bed	153
8	20ft trailers (chassis)	227
9	40ft trailers (chassis)	250
10	20ft Mafi – 30 tons	4
11	20ft Mafi – 60 tons	69
12	20ft Mafi – 80 tons	8
13	20ft Mafi – 100 tons	212
14	62ft Mafi – 80 tons	15

Source: Company data

The general cargo shipping market

Container ship cargoes generally carry finished goods, but they may also carry various components and raw materials used for the production of goods. Container vessels carry up to 15,000 TEUs on a single voyage. RoRo ships, which also belong to this segment, utilise shore-based ramp systems for loading and unloading. RoRos are usually associated with shorter trade routes, as they are unable to carry the same amount of volume as can crane-based container vessels. However, due to their flexibility and high speed, RoRos are frequently used in the container markets at present.

Globalisation and the associated, substantial changes in the worldwide manufacturing and distribution processes have, to a large degree, been made possible by the invention and development of container shipping.

Demand for container vessels should increase 6.6% per year during 2010-15

According to the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), the total number of full containers shipped internationally should grow to 177.6m TEU by 2015 – an increase from an estimated 77.8m TEU in 2002 – but at a slower rate of 6.6% per year compared with 8.5% year during 1980-2002. UNESCAP expects average growth in 2010-15 to be lower than in 2000, and a 7.5% per year CAGR during 2002-10, falling to 5.0% pa over 2010-15.

Table 21 : Container volumes should reach 178m TEUs by 2015

Year	Container volumes (m TEU)	CAGR (%)
1980	13.5	-
1990	28.7	7.8
2000	68.7	9.1
2010	138.9	7.3
2015	177.6	5.0

Source: UNESCAP

Company financials

We expect NSCSA's net debt/equity ratio to peak in 2012, the same year we forecast NSCSA will make the final payment for its planned ship additions. In 2010-15, we forecast a revenue CAGR of 9.8% and an EBITDA CAGR of 14.5%.

Company forecasts

Volume

For all vessels, we assume ship utilisation of 350 days a year. We make this assumption to remain consistent and because the company doesn't release such information.

Charter rates and operating costs

NSCSA's valuation is extremely sensitive to shipping rates and operating cost assumptions. Using financial statements for the past five years, we extract the following information.

Table 22 : Charter rates and operating costs

	2006	2007	2008	2009	2010	2011F	2012F	2013F	2014F	2015F
Boats in operation										
VLCC	9	11	13	17	17	17	17	17	17	17
Chemical Carriers	8	11	16	13	13	16	21	22	22	22
Liners	4	4	4	4	4	4	4	4	4	4
Estimated days in operation										
VLCC	3,150	3,558	3,979	5,194	5,950	5,950	5,950	5,950	5,950	5,950
Chemical Carriers (excluding three vessels on bareboat leases)	3,498	4,255	5,470	3,590	3,500	4,436	7,265	7,525	7,700	7,700
Liners	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Revenue (SRm)										
VLCC	709	741	1,352	1,040	1,446	1,301	1,268	1,395	1,633	1,926
Chemical Carriers	449	474	619	305	267	337	548	627	682	713
Liners	493	488	623	327	338	354	379	417	438	460
Estimated revenue per day (US$/day)										
VLCC	60,019	55,501	90,641	53,402	64,786	58,307	56,849	62,534	73,165	86,335
Chemical carriers (excluding bareboat leases)	34,233	29,729	30,174	19,224	16,100	16,905	18,088	20,193	21,502	22,577
Liners	93,953	93,028	118,694	62,301	64,296	67,511	72,237	79,460	83,433	87,605
Operating expenses (SRm)										
VLCC	372	480	667	771	1,070	1,159	1,217	1,248	1,280	1,312
Chemical carriers	378	393	503	196	154	196	309	320	329	333
Liners	411	380	464	375	378	390	400	349	359	369
Estimated opex per day *not including depreciation* (US$/day)										
VLCC	-	-	-	27,698	36,022	40,417	42,932	44,258	45,638	47,047
Chemical carriers (excluding bareboat leases)	-	-	-	8,630*	6,767	6,807	6,915	7,058	7,216	7,329
Liners	-	-	-	65,180	67,537	69,881	71,844	59,512	61,327	63,225
Consolidated (SRm)										
Total revenue	1,651	1,703	2,595	1,672	2,050	2,029	2,359	2,601	2,919	3,275
Operating costs	1,161	1,252	1,634	1,300	1,602	1,760	2,003	1,995	2,048	2,095
Gross profit	490	451	961	372	448	269	356	606	871	1,181
Gross margin	30%	26%	37%	22%	22%	13%	15%	23%	30%	36%

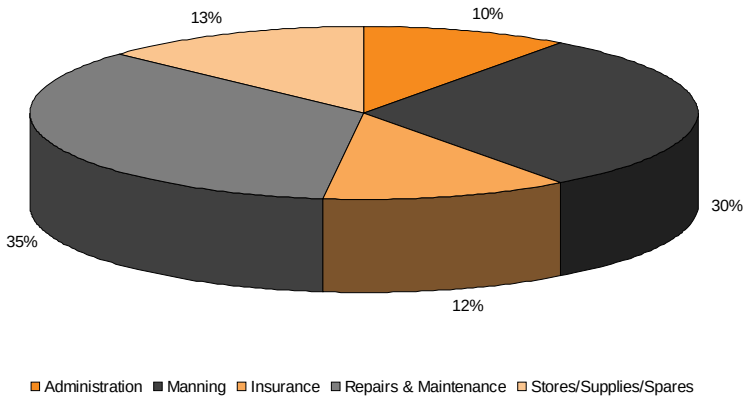
*average daily opex is less one-off items written back in 2009 that were not incurred in 2009
Source: Company data, Rasmala forecasts

To arrive at a reasonable estimate for consolidated days in operation, we assume a 30-day lag from when delivery of the ship has been announced to when it begins generating revenue.

We forecast a steep drop in gross margins in 2011 and 2012 because despite incremental revenue from chemical carrier additions, we forecast a yoy decrease of 10% in VLCC rates coupled with our forecasts of increasing bunker costs given the current bunker cost environment. Bunker costs were responsible for 30.5% of operating costs in 2009, 39.1% in 2010, and we forecast 39-42% in 2011-15.

Below we present an average percentage breakdown of daily VLCC expenses ex bunker costs based on Drewry 2010 estimates.

Chart 11 : Daily expenses breakdown ex bunker costs

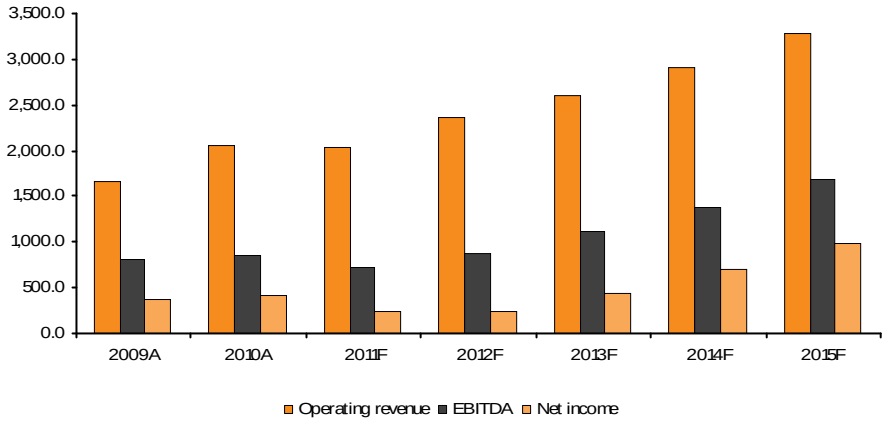


Source: Drewry 2010

Revenue and earnings

- We forecast FY11 revenue of SR2,028.9m and forecast revenue CAGR from 2011-2015 of 12.7%.
- We forecast FY11 EBITDA of SR726m and net income of SR231m. We expect the beginning of a recovery in VLCC rates come 2013 and forecast FY EBITDA of SR1,121m and net income of SR448m.
- We forecast an EBITDA decline of 15% from 2010 to 2011 and an EPS decline of 44% for the same period, mainly due to lower VLCC dayrates and higher bunker fuel costs. We expect a VLCC shipping rate recovery to begin in 2013 and forecast an EBITDA CAGR of 23.3% from 2011-15 and net income CAGR of 43.6%.

Chart 12 : Revenue, EBITDA and net income, 2009-15F



Source: Company data, Rasmala forecasts

Cash flow

We forecast the company will generate SR631m in operating cash flow in 2011, SR687m in 2012 and SR894m in 2013. The company seems to have managed its working capital cycle carefully in the past few years, with reductions in receivable days and consistent payable days.

With regards to investing cash flow, the company has fairly predictable capex plans. We estimate that NSCSA has 12 chemical carriers to be delivered from June 2011 to June 2013 vessels for a total equity adjusted value of SR1.809bn, of which SR273m has already been paid. We estimate that the remaining SR1.54bn will be paid over 2011-12, with SR1.04bn to be paid in 2011 and approximately SR500m to be paid in 2012. We assume the facility for the chemical carriers has already been drawn upon.

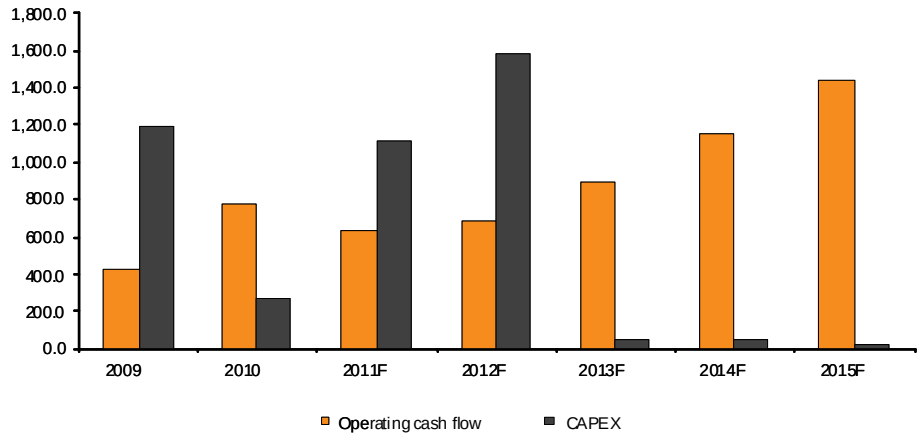
With regards to the RoRo segment, we forecast the company will sell its current fleet or RoRo vessels for about SR35m each and, in line with company announcements, purchase four new RoRo vessels for a total price of SR1,029m or about SR257m per vessel. We expect the full amount to be paid in 2012 and that the company will finance these purchases with 80% debt from local banks and the PIF, and 20% equity from internal resources. We forecast additional debt of about SR823m in 2012 and no additional debt post 2012.

We forecast Bahri Dry Bulk has five Panamax vessels to be delivered from mid 2011 to beginning 2012 for a total equity adjusted value of SR411m. We estimate SR164m will be spent in 2011, followed by SR245m in 2012. The company appears to finance these purchases using 30% equity and a 70% debt facility. We forecast the facility for the Panamax vessels will be drawn upon in 2011 and the company will borrow additional debt of SR484m in 2011.

Outside of fleet expansion capex, we estimate overhaul capex every five years for the life of the fleet.

NSCSA enjoys a consistent dividend policy, with an average payout ratio of approximately 74% from 2006 to 2010. We forecast a payout ratio of 70% for the life of the business.

Chart 13 : Operating cash flows and capex, 2009-15

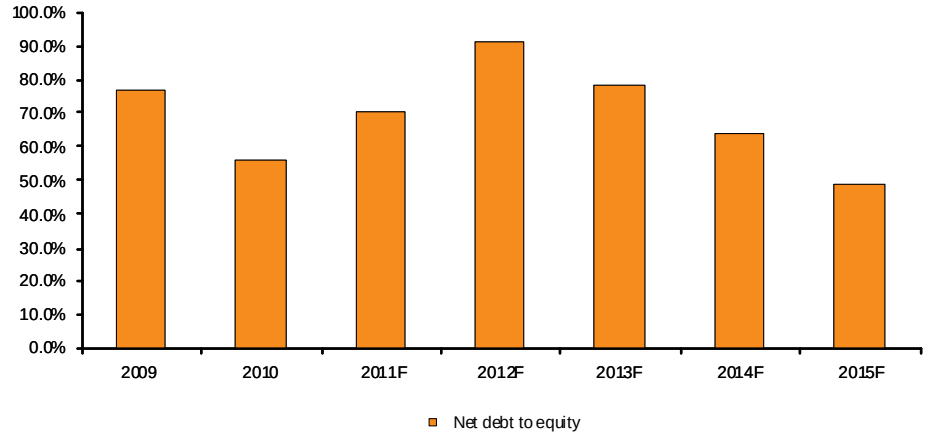


Source: Company data, Rasmala forecasts

Balance sheet

NSCSA's net debt-to-equity ratio as of end-2010 at 56% is healthy, in our view, and similar to that of the industry standard. In 2010, the company borrowed SR140m and made repayments of SR760m. We forecast the debt-to-equity ratio will peak in 2012, after the final payments are made for the expansion of the chemical fleet and RoRo fleets and gradually decline going forward as the company continues to generate cash flow and pay down its debt. We forecast the company will continue to gradually pay down its debt from 2013 onwards.

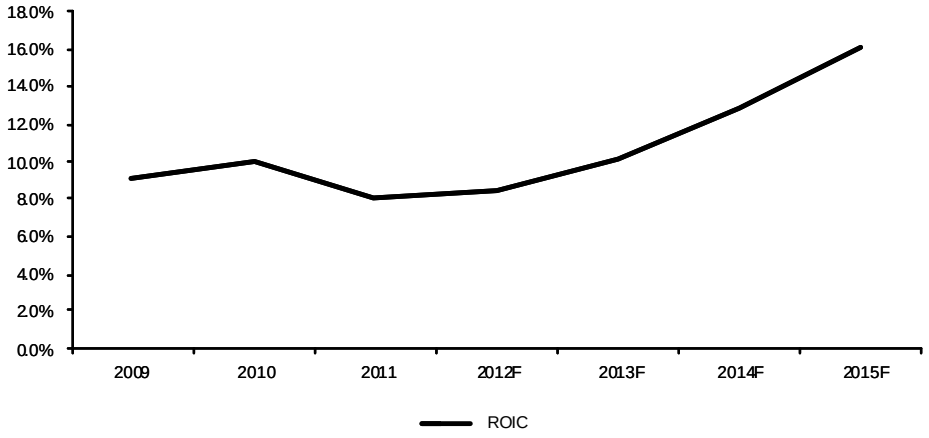
Chart 14 : Net debt to equity, 2009-15F



Source: Company data, Rasmala forecasts

Along with the cyclical trough in tanker rates, we forecast the company's ROIC will trough in 2011 at 8.4%, followed by increases in 2012 and 2013 as a result of greater asset utilisation and a recovery in tanker rates.

Chart 15 : Return on invested capital, 2009-15F



Source: Company data, Rasmala forecasts

Financial analysis

NSCSA's gross revenue and operating profits increased at CAGRs of 17% and 23%, respectively from 2005 to 2008. The increases were driven by healthy demand for tanker tonnage and the associated rise in shipping rates, in line with general trends in the marine transportation industry.

A sharp decline in shipping rates, owing to the global recession and weaker demand, led to a fall in the gross revenue of the company to SR1,672m in 2009, a 36% decline yoy. In 2008, NSCSA experienced a 52% increase in its top line as shipping rates reached their peak in the global market during the first nine months of the year.

With the upward trend in the shipping rates and the improving demand in the shipping industry, NSCSA's gross revenues recovered, increasing 23% yoy in 2010 to SR2,050m.

Table 23 : NSCSA's revenue, expenses and profits, 2006-10

SR000	2006	2007	2008	2009	2010
Operating revenue	1,651,281	1,703,294	2,594,530	1,672,016	2,049,830
% yoy		*3.1%*	*52.3%*	*-35.6%*	*22.6%*
Operating expenses	1,161,006	1,251,958	1,633,882	1,299,545	1,601,945
% yoy		*7.8%*	*30.5%*	*-20.5%*	*23.3%*
Gross operating income	490,275	451,336	960,648	372,471	447,885
% yoy		*-7.9%*	*112.8%*	*-61.2%*	*20.2%*
General and admin expenses	81,344	87,301	105,718	95,020	103,801
% yoy		*7.3%*	*21.1%*	*-10.1%*	*9.2%*
Operating income	408,931	364,035	854,930	277,451	344,084
% yoy		*-11.0%*	*134.8%*	*-67.5%*	*24.0%*
EBITDA	748,608	771,770	1,256,600	806,369	851,210
% yoy		*3.1%*	*62.8%*	*-35.8%*	*5.6%*
Net profit	441,496	422,576	749,968	369,300	414,878
% yoy		*-4.3%*	*77.5%*	*-50.8%*	*12.3%*

Source: Company data

NSCSA's operating expenses rose from 2006 to 2008, but declined in 2009 owing to lower bunker fuel costs. Bunker costs accounts for about one-third of total operating expenses, followed by depreciation and other vessel-related expenses.

Table 24 : NSCSA's operating expenses by category

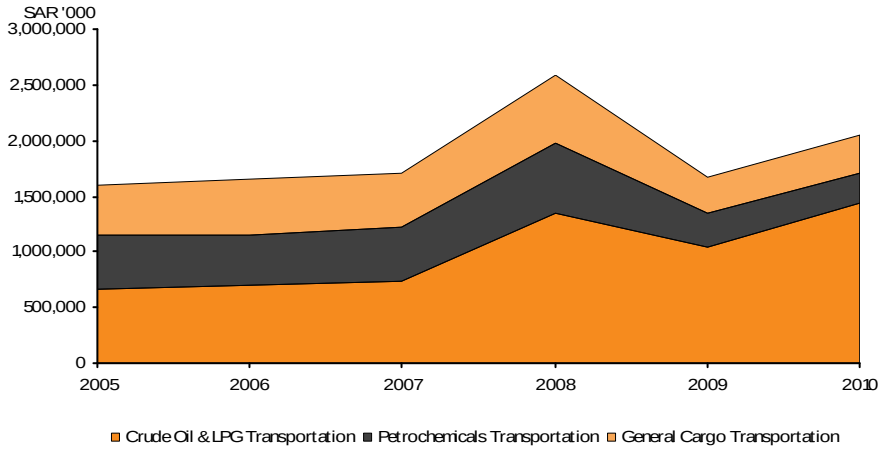
SR000	2006	2007	2008	2009	2010F
Bunker consumption	301,509	327,217	539,592	395,986	625,692
% yoy		*8.5%*	*64.9%*	*-26.6%*	*58.0%*
Vessel related expenses	0	145,244	181,580	310,012	349,528
% yoy		n/a	25.0%	70.7%	12.7%
Cargo-related expenses	177,496	153,641	172,407	123,397	134,995
% yoy		-13.4%	12.2%	-28.4%	9.4%
Voyage related expenses	163,049	155,918	170,061	115,388	125,085
% yoy		-4.4%	9.1%	-32.1%	8.4%
Depreciation and amortisation	192,502	212,016	324,562	344,525	354,814
% yoy		10.1%	53.1%	6.2%	3.0%
Others	5,620	7,473	12,823	10,237	11,831
% yoy		33.0%	71.6%	-20.2%	15.6%
Total operating expenses	840,176	1,001,509	1,401,025	1,299,545	1,601,945
% yoy		*19.2%*	*39.9%*	*-7.2%*	*23.3%*

Source: Company data

Crude Oil & LPG Transportation segment is primary contributor to NSCSA's top line

Historically, the Crude Oil & LPG Transportation segment has accounted for the bulk of the company's top line, as depicted in Chart 16. In 2005, this segment accounted for 41% of NSCSA's total revenue and gradually increased its contribution to 71% by 2010, largely due to improving freight rates in the global market for VLCC carriers.

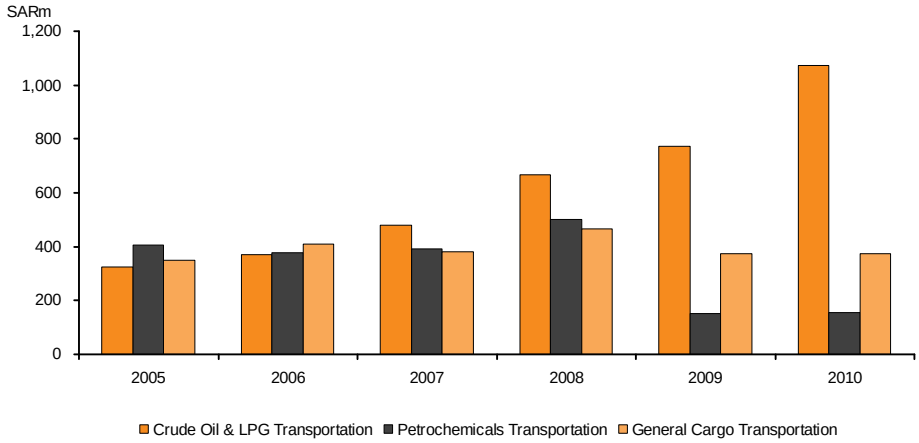
Chart 16 : Crude oil & LPG transportation contributes most to NSCSA's total revenue



Source: Company data

The crude oil & LPG transportation segment accounts for the largest portion of NSCSA's operating expenses, corresponding to its contribution to revenue. This segment accounted for 67% of the total operating costs in 2010, compared to 30% in 2005.

Chart 17 : NSCSA's operating expenses by segment



Source: Company data

Company's profit margins contracted during 2009, amid the global economic slowdown

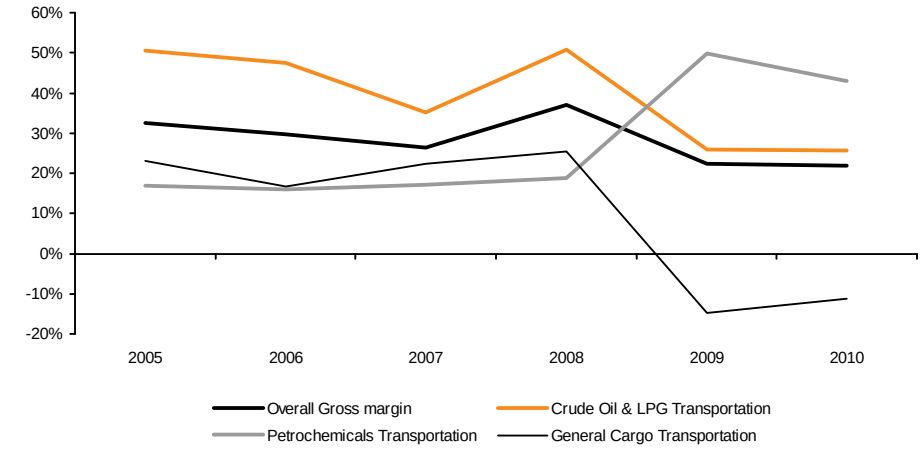
In 2009, NSCSA's gross profit margin shrank to 22% compared to 37% in 2008. Its net profit margin was also 22%, largely helped by affiliates' profits and the bunker subsidy. The company attributed the significant increase in revenue and profitability in 2008 to many factors, including the improvement in charter rates during the first nine months, new tankers coming into service, the diversification of business activities and the company's adopting a balanced strategy between spot and charter contracts. In 2010, NSCSA's gross profit margin remained 22% and its net profit margin dropped to 20% compared to 22% in 2009.

Chart 18 : Profit margins peaked in 2008, but dropped substantially in 2009

Source: Company data

Historically, the company's overall gross profit margin has been driven primarily by the Crude Oil & LPG Transportation segment. The Petrochemicals Transportation segment's gross profit margin improved in 2009 due to nonrecurring items. Furthermore, the General Cargo Transportation segment experienced operating losses in 2009 and 2010; reasons for such losses are: 1) higher maintenance costs in the later years of the life of the boats; and 2) higher bunker fuel costs due to inefficiencies of the older boats.

Chart 19 : Crude Oil & LPG segment's gross operating margin above the company average



Source: Company data

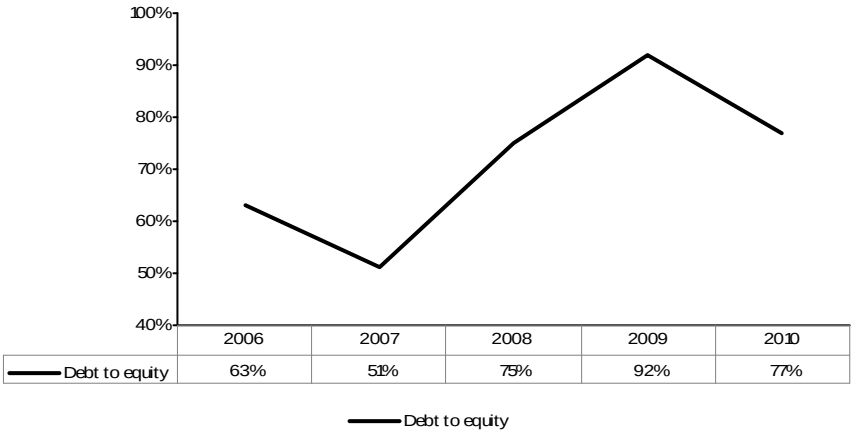
High capital expenditure led to a high level of borrowings

NSCSA's debt-to-equity ratio increased to 92% in 2009 compared to 75% in 2008, as the company borrowed SR828m during the year.

The parent company had obtained financing of SR2.48bn and the subsidiaries another SR2.28bn by end-2009, principally to finance the building of new VLCCs, petrochemicals carriers and its new office in Dubai.

By 2010, total borrowings of the company dropped to SR4.1bn from toSR4.8bn at end-2009.

Chart 20 : The debt-to-equity ratio dipped to 77% in 2010



Source: Company data

Financial analysis by segment

Crude Oil & LPG Transportation

NSCSA's crude transportation revenue grew at a CAGR of 27% from 2005 to 2008, mainly as a result of increasing demand for VLCC tonnage and the associated shipping rate increases in the global markets. This compares to a CAGR of only 3% from 2008 to 2010 due to a slowdown in demand due to the global recession and an oversupply of VLCC tankers in the market.

During 2009, despite an increase in NSCSA's number of VLCCs from 13 to 17, this segment saw a decline in revenue of 23.1% compared to 2008 to SR1,040.2m due to excess capacity in the VLCC market, which resulted in very low freight rates. Operating expenses, on the other hand, increased 15.7% in 2009, which resulted in a drop in the segment's operating profit.

Table 25 : VLCC rates earned by NSCSA fell to their lowest in 2009

SR000	2005	2006	2007	2008	2009	2010
Operating revenue	658,919	708,977	740,527	1,352,448	1,040,228	1,445,532
Operating expenses	325,462	372,169	479,871	666,829	771,456	1,070,421
Operating profit	333,457	336,808	260,656	685,619	268,772	375,111
Consolidated days in operation	3150	3150	3558	3979	5194	5950
Number of VLCCs	9	9	11	13	17	17
Spot market	*3*	*3*	*5*	*5*	*11*	*11*
Time chartered	*6*	*6*	*6*	*8*	*6*	*6*
Estimated shipping rate (US$ per day)*	55,782	60,019	55,501	90,641	53,402	64,786

*Based on 350 days of operation per year
Source: Company data,

The company's daily VLCC earnings were generally on the rise over 2005-08, except for a slight dip in 2007. These rate increases were influenced largely by tight tonnage capacity as well as high crude oil prices. In 2008, NSCSA's VLCC earnings per day sky climbed sharply, with 63.3% yoy growth owing to very high oil prices that prevailed until the third quarter of the year.

The combined shipping rate calculated for the company fell 41.1% yoy in 2009 to US$53,414 per day. However, this compares better with the global average spot VLCC earnings for 2009 of US$32,000 per day reported by Lloyd's Shipping Economist in its June 2010 publication. We assume this level of combined daily earnings could be a result of triangulation and high earnings from NSCSA's time-charter vessels, as NSCSA entered into fixed-rate contracts when VLCC freight rates in the market were much higher in 2008.

In 2010, VLCC tanker rates in the global market picked up significantly before falling in the last three months of the year. As a result, NSCSA experienced higher revenues in 2010 compared to the previous year in this segment. Revenue increased 39% yoy to reach SR1,446m in 2010. Operating expenses also increased 39%, primarily due to higher bunker fuel costs, keeping the gross operating profit margin at 26%.

Petrochemicals Transportation segment

NSCSA's Petrochemicals Transportation segment's revenue grew at a CAGR of 8% from 2005 to 2008. In 2008, the revenue increased 30.5% yoy as a result of high freight rates and healthy tanker demand in the first nine months of the year. During 2009, as experienced by the whole industry, dayrates dropped due to weaker demand in the chemicals tanker market coupled with an operational shift of 40% spot operating boats to 20%. Chemical tanker freight rates continued to be vulnerable in 2010, which explains the drop in revenue in 2010 by 13% yoy.

Table 26 : NSCSA's chemical carriers 2009 daily earnings were less than half those in 2007

SR000	2005	2006	2007	2008	2009	2010
Operating revenue	490,284	449,053	474,370	618,937	304,706	266,744
Operating expenses	407,539	377,774	392,562	502,843	152,892	153,855
Operating profit	82,745	71,279	81,808	116,094	151,814	112,889
Consolidated days in operation	2,215	3,498	4,255	5,470	3,590	3,500
Number of CCs	5	8	11	13	13	13
Spot market	*3*	*4*	*4*	*6*	*0*	*0*
Time chartered	*2*	*4*	*7*	*7*	*13*	*13*
Estimated shipping rate (US$ per day)*	59,039	34,233	29,729	30,174	19,224	16,100

*Based on 350 days of operation per year
Source: Company data

The segment's operating profit margin improved to 49.8% in 2009 compared to just 18.8% in 2008. The improvement, however, was due to amendments to a charter-party agreement that resulted in a reduction of expenses, and an excess provision made for contingent liabilities during a prior year that was credited to the income statement in 2009. The amendments to the charter-party agreement applied retrospectively from 2008 resulted in a total reduction of SR31.14m in expenses (2008: SR14.71m, 2009: SR16.43m) that was set off against 2009 operating expenses. The excess provision amounted to SR28.2m, credited to the income statement in 2009.

As a result of these one-off items, the operating profit margin of this segment improved significantly during 2009. If we disregard the write-backs that did not apply to 2009, we are left with an operating margin of 35.7% compared to 49.8%. In 2010, the operating profit margin increased due to lower vessel expenses to 42.3%.

General Cargo Transportation segment

NSCSA's General Cargo Transportation segment's revenue grew at a CAGR of 11% in 2005-08, in line with developments in global markets. The robust demand for the transportation of goods owing to healthy global GDP levels and high freight rates resulted in the company earning healthy revenue and profits during this period.

Table 27 : The drop in general cargo's daily earnings reflects the oversupply in 2009

SR000	2005	2006	2007	2008	2009	2010
Operating revenue	453,067	493,251	488,397	623,145	327,082	337,554
Operating expenses	348,004	411,063	379,525	464,210	375,197	377,669
Operating profit	105,063	82,188	108,872	158,935	-48,115	-40,115
Consolidated days in operation	1,400	1,400	1,400	1,400	1,400	1,400
Number of RoRos	4	4	4	4	4	4
Spot Market	*2*	*2*	*2*	*2*	*4*	*4*
Time Chartered	*2*	*2*	*2*	*2*	*0*	*0*
Estimated shipping rate (US$ per day)*	86,298	93,953	93,028	118,694	62,301	64,296

*Based on 350 days of operation per year
Source: Company data

The shipping rates earned by the company were increasing steadily up to 2008, but declined sharply by almost 50% in 2009, with weakening global demand and an oversupply of cargo vessels in the market.

In addition, the General Cargo segment witnessed a considerable decline in container and bulk shipping volumes in 2009 owing to the global recession, with the markets the segment operates in also being negatively affected by lower freight rates and lower cargo volumes.

As a result of such low revenue and high costs associated with aging boats such as bunker fuel inefficiency and higher maintenance, the segment's 2009 gross operating profit declined 130.3% yoy. Its 2009 gross operating margin turned negative and witnessed a gross operating loss of

SR48.1m in 2009 and SR40.1m in 2010.

Income statement

SRm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	1672	2050	2029	2359	2601
Cost of sales	-770.6	-1095	-1201	-1369	-1350
Operating costs	-95.0	-103.8	-101.4	-117.9	-130.1
EBITDA	**806.4**	**851.2**	**726.4**	**872.3**	**1121**
DDA & Impairment (ex gw)	-360.8	-360.7	-368.3	-432.1	-447.3
EBITA	**445.6**	**490.5**	**358.1**	**440.3**	**673.4**
Goodwill (amort/impaired)	0.00	0.00	0.00	0.00	0.00
EBIT	**445.6**	**490.5**	**358.1**	**440.3**	**673.4**
Net interest	-14.7	-24.5	-80.5	-103.4	-107.3
Associates (pre-tax)	-168.1	-146.4	-190.4	-201.9	-197.4
Other pre-tax items	168.2	150.3	190.5	201.9	197.4
Reported PTP	**430.9**	**469.8**	**277.6**	**336.9**	**566.1**
Taxation	-34.6	-36.4	-20.8	-25.3	-42.5
Minority interests	-27.0	-18.6	-25.9	-65.8	-76.0
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	**369.3**	**414.9**	**230.9**	**245.8**	**447.6**
Tot normalised items	-1.96	-1.26	0.00	0.00	0.00
Normalised EBITDA	806.4	851.2	726.4	872.3	1121
Normalised PTP	430.9	469.8	277.6	336.9	566.1
Normalised net profit	**371.3**	**416.1**	**230.9**	**245.8**	**447.6**

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

SRm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	785.7	1123	811.0	334.6	291.5
Other current assets	441.1	455.2	534.0	592.2	614.6
Tangible fixed assets	6731	6408	8332	8204	9331
Intang assets (incl gw)	170.7	40.4	40.4	40.4	40.4
Oth non-curr assets	2210	1940	963.2	2525	1036
Total assets	**10339**	**9966**	**10681**	**11696**	**11313**
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	609.8	736.0	870.9	924.1	922.4
Long term debt (3)	4520	3820	4305	5128	4536
Oth non-current liab	31.4	31.6	31.6	31.6	31.6
Total liabilities	**5161**	**4588**	**5207**	**6083**	**5490**
Total equity (incl min)	5178	5378	5474	5613	5823
Total liab & sh equity	**10339**	**9966**	**10681**	**11696**	**11313**
Net debt	3981	3022	3818	5118	4569

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

SRm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	806.4	851.2	726.4	872.3	1121
Change in working capital	21.7	39.8	25.9	65.8	76.0
Net interest (pd) / rec	0.00	0.00	0.00	0.00	0.00
Taxes paid	-90.8	-25.6	0.00	0.00	0.00
Other oper cash items	-154.9	-383.4	893.6	-250.8	-302.6
Cash flow from ops (1)	**582.3**	**482.1**	**1646**	**687.4**	**894.0**
Capex (2)	-1186	-266.3	-1117	-1584	-48.0
Disposals/(acquisitions)	168.1	694.0	-149.3	-231.0	15.9
Other investing cash flow	-1.14	-22.5	0.00	0.00	0.00
Cash flow from invest (3)	**-1019**	**405.2**	**-1266**	**-1815**	**-32.1**
Incr / (decr) in equity	1566	140.0	484.4	822.9	0.00
Incr / (decr) in debt	-809.6	-759.8	0.00	0.00	-591.6
Ordinary dividend paid	-466.7	-317.3	-161.6	-172.1	-313.4
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	0.00	80.0	0.00	0.00	0.00
Cash flow from fin (5)	**289.7**	**-857.1**	**322.7**	**650.9**	**-905.0**
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	**-147.0**	**30.2**	**702.3**	**-476.4**	**-43.1**
Equity FCF (1+2+4)	-603.6	215.8	528.8	-896.3	846.0

Source: Company data, Rasmala forecasts

year to Dec

Standard ratios	NSCSA					China COSCO Holdings			MISC		
Performance	**FY09A**	**FY10A**	**FY11F**	**FY12F**	**FY13F**	**FY10F**	**FY11F**	**FY12F**	**FY11F**	**FY12F**	**FY13F**
Sales growth (%)	-35.6	22.6	-1.02	16.3	10.3	37.5	3.45	12.8	4.88	3.47	2.48
EBITDA growth (%)	-35.8	5.56	-14.7	20.1	28.5	n/a	-7.25	20.8	17.0	24.7	16.0
EBIT growth (%)	-51.8	10.1	-27.0	22.9	53.0	n/a	-17.9	28.2	35.7	40.9	22.6
Normalised EPS growth (%)	-51.4	12.1	-44.5	6.45	82.1	n/a	-15.8	23.2	76.0	48.2	24.9
EBITDA margin (%)	48.2	41.5	35.8	37.0	43.1	12.8	11.5	12.3	19.8	23.8	27.0
EBIT margin (%)	26.7	23.9	17.7	18.7	25.9	8.14	6.46	7.35	10.8	14.8	17.7
Net profit margin (%)	22.2	20.3	11.4	10.4	17.2	7.21	5.87	6.41	8.57	12.3	15.0
Return on avg assets (%)	3.27	3.45	1.91	2.36	4.23	5.93	4.93	5.69	3.83	5.36	6.45
Return on avg equity (%)	7.37	8.26	4.51	4.73	8.45	15.0	11.1	12.3	5.27	7.81	9.55
ROIC (%)	5.44	5.34	4.25	4.72	6.26	8.53	5.62	6.50	4.06	5.37	6.19
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00	-2.44	-5.35	-4.47	-5.30	-3.99	-3.16
				year to Dec			year to Dec			year to Mar	
Valuation											
EV/sales (x)	5.21	3.78	4.21	4.17	3.57	0.99	0.97	0.87	2.93	2.93	2.92
EV/EBITDA (x)	10.8	9.10	11.8	11.3	8.29	7.72	8.50	7.07	14.8	12.3	10.8
EV/EBITDA @ tgt price (x)	11.3	9.59	12.3	11.8	8.67	7.80	8.59	7.14	11.8	9.89	8.74
EV/EBIT (x)	19.5	15.8	23.9	22.4	13.8	12.1	15.1	11.8	27.0	19.8	16.5
EV/invested capital (x)	0.95	0.92	0.92	0.91	0.89	1.11	1.02	0.95	1.37	1.34	1.29
Price/book value (x)	0.95	0.93	0.92	0.90	0.88	1.49	1.33	1.21	1.51	1.50	1.45
Equity FCF yield (%)	-12.8	4.57	11.2	-19.0	17.9	-6.74	-4.15	-0.34	-1.45	0.24	1.81
Normalised PE (x)	12.7	11.4	20.5	19.2	10.6	10.7	12.7	10.3	28.5	19.3	15.4
Norm PE @ tgt price (x)	13.9	12.4	22.3	20.9	11.5	10.9	12.9	10.5	21.6	14.6	11.7
Dividend yield (%)	6.67	6.67	3.40	3.67	6.60	0.00	1.96	2.42	5.90	5.90	5.90
				year to Dec			year to Dec			year to Mar	

Per share data	**FY09A**	**FY10A**	**FY11F**	**FY12F**	**FY13F**
Tot adj dil sh, ave (m)	315.0	315.0	315.0	315.0	315.0
Reported EPS (SAR)	1.17	1.32	0.73	0.78	1.42
Normalised EPS (SAR)	1.18	1.32	0.73	0.78	1.42
Dividend per share (SAR)	1.00	1.00	0.51	0.55	0.99
Equity FCF per share (SAR)	-1.92	0.69	1.68	-2.85	2.69
Book value per sh (SAR)	15.8	16.2	16.4	16.6	17.0
				year to Dec	

Solvency	**FY09A**	**FY10A**	**FY11F**	**FY12F**	**FY13F**
Net debt to equity (%)	76.9	56.2	69.8	91.2	78.5
Net debt to tot ass (%)	38.5	30.3	35.7	43.8	40.4
Net debt to EBITDA	4.94	3.55	5.26	5.87	4.08
Current ratio (x)	2.01	2.14	1.54	1.00	0.98
Operating CF int cov (x)	0.00	0.00	0.00	0.00	0.00
Dividend cover (x)	0.80	1.31	1.43	1.43	1.43
					year to Dec

Priced as follows: 4030.SE - SR15.00; 1919.HK - HK$8.44; MISC.KL - RM7.91
Source: Company data, Rasmala forecasts

Base-case SOTP valuation

	Value(SRm)	Per Share (SR)	% of Asset Value	Valuation Methodology
VLCCs	6,521	20.70	127%	DCF
Chemical Carriers	1,654	5.25	32%	DCF
Bahri Dry Bulk	224	0.71	4%	DCF
RoRo's	156	0.50	3%	DCF
Corporate Expenses	-679	-2.15	-13%	DCF
Petredec	498	1.58	10%	10x normalised earnings in line with average historical multiple
Investments in financial instruments	78	0.25	2%	Book Value
Total EV	**8,452**	**26.83**	**164%**	
Net Debt	3,020	9.59	59%	Net debt as of 31/12/2010
Minority Interests	289	0.92	6%	Minority Interest as of 31/12/2010
Total Equity Value	**5,144**	**16.33**	**100%**	
Shares Outstanding	315			
Equity Value per Share	**16.33**			
Current Price	15.00			
Upside/Downside	8.9%			
Recommendation	Hold			

Source: Company data, Rasmala forecasts

Company description

Hold

The National Shipping Company of Saudi Arabia (NSCSA) was established by royal decree in 1979 as the first national carrier in Saudi Arabia. The company is a large shipping conglomerate engaged in the purchasing, chartering and operation of vessels for the transportation of crude oil, liquefied petroleum gas (LPG), petrochemicals and general cargo. The company, along with its affiliates, covers more than 150 ports in the Gulf, the Mediterranean, Europe, North and South America, Asia and Australia.

At present, the company is among the top 10 VLCC owners in the world and owns 17 VLCCs, 13 petrochemicals carriers and four fully owned RoRo vessels. The Public Investment Fund holds 28% of the company's equity, followed by 5% held by Abdullah S.A. Al Rashed. The freefloat of the company as at 3 March 2011 was 67%. NSCSA is listed on the Saudi Stock Exchange.

Price relative to country

Strategic analysis

Average SWOT company score: 4

Strengths — 4

NSCSA's balanced strategy of having time-chartered and spot-chartered vessels ensures a relatively high and stable revenue stream for the company. Moreover, the company is fairly diversified as it serves the crude oil, petrochemicals and liner cargo shipping segments.

Weaknesses — 4

High levels of debt could hinder the company's growth plans.

Opportunities — 4

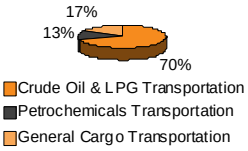
NSCSA's long-standing relationships with large ship-hiring companies should ensure future business in the time-charter market. The venture with ARASCO for dry bulk transportation should add further diversification to its business.

Threats — 4

An oversupply of vessels in the global market could result in idle fleet for NSCSA in the spot market.

Scoring range is 1-5 (high score is good)

Revenue split



Source: Company data for 2010

Market data

Headquarters
Siteen Street, Malaz PO Box 8931, Riyadh 11492, Saudi Arabia

Website
http://www.nscsa.com

Shares in issue
315.0m

Freefloat
67%

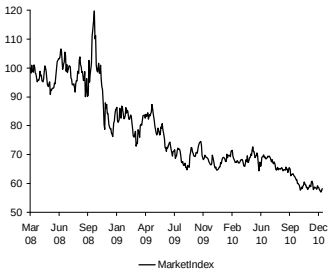
Majority shareholders
Government of Saudi Arabia (28%), Abdullah S.A.Al Rashed (5%)

Country view: Saudi Arabia

MENA markets are showing characteristics of a text book case of loss aversion. This is expected given the magnitude of losses investors experienced since 2008, with 2009 lagging emerging markets by a fairly wide margin. Rising oil prices and budget surpluses drove asset prices across the region higher resulting in a real-estate bubble that has negatively impacted speculators and the banking system. Bubbles do pop and recover over time if there is a legal system in place that enables the transfer of assets. The bad news is such a mechanism did not exist. The good news is that with the creation or RERA and the possibility of Strata Law, this could change and facilitate the transfer of properties from speculators to real investors.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to M East & Africa



Competitive position

Average competitive score: 4+

Supplier power — 4+

Low - Shipbuilders construct vessels according to the specifications set by shipping companies and have the right to cancel new building contracts due to delays on the part of shipbuilders.

Barriers to entry — 4+

High - The capital outlay required to enter the industry is very high.

Customer power — 4-

Moderate - On the time charter market, as opposed to the spot market, once a shipping company enters a long-term contract, it is not possible for a customer to change trading terms.

Substitute products — 4+

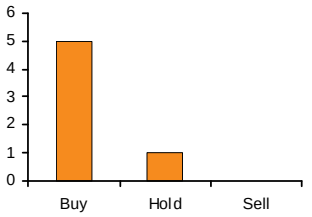
Very Low - In the case of large bulk shipping, where goods and liquids cannot be transported by road or pipeline, shipping is the only cost-effective method of transport on a per-tonne basis.

Rivalry — 3-

High - NSCSA faces high competition as the marine transportation industry is largely fragmented and currently faces excess supply.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

Broker recommendations



Source: Bloomberg

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

NSCSA (RIC: 4030.SE, Rec: Hold, CP: SR15.00, TP: SR16.33): Downside risks to our SOTP-based target price include rising bunker fuel costs, Middle East instability and lower OPEC production. Upside risks include higher shipping rates as a result of key route disruptions and a sooner than expected recovery in global oil demand.

Disclaimer

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