

Bahri announced its earning for Q4-18 with net income below our estimates by 58.7%. Deviation came as a result of higher finance cost and losses from investment in associates. Revenue and gross profit best our estimates by 3.3% and 2.5%, respectively. We update our recommendation to **"Neutral"** with revised PT of SAR 32.5/share.

- Bahri reported net income of SAR 91.4mn below our estimates of SAR 221.1mn. The deviation from our estimates came as result of higher finance cost, due to losses in financial derivatives revaluation. We expect the losses from revaluation to be around SAR 103.2mn, which increase the finance cost to SAR 189.5mn compared to SAR 72.1mn year earlier. Petredec Ltd. recorded a loss of SAR 36.0mn compared to net profit of SAR 35.0mn year earlier, and against our estimates of net profit of SAR 3.6mn. In addition, International Maritime Industries recorded start-up losses of SAR 51.0mn.
- Revenue stood at SAR 1,781.7mn (24.3%Y/Y, 27.8%Q/Q), in line with our estimates of SAR 1,724.4mn. Revenue per vessel for Bahri Oil is expected to stand around USD 70K/vessel compared to USD of 52.1K/vessel. Bahri Dry Bulk and Bahri Chemical are expected to show an increase in revenue per vessel, while Bahri Logistics is expected to show a decline of 15.0%Y/Y.
- Gross profit stood at SAR 398.1mn in line with our estimates of SAR 388.2mn. GP margin declined by 318bps Y/Y standing at 22.3%, compared to AJC forecast of 22.5%. Operating Profit at SAR 386.2mn showed an increase of 39.7% Y/Y, above estimate of SAR 333.4mn (deviation of 15.8%). The deviation in operating profit came as result of lower OPEX standing at SAR 11.9mn compared to our estimates of SAR 56.0mn. The decline in OPEX is a result of lower provision.

AJC view: We revised our revenue estimates for FY19, as shipping rates had declined significantly. Shipping rates declined by 58.8% since the start of the year, to trade at 18.6K/vessel compared to 45.1K/vessel by end of the year. We expect shipping rate to remain weak for the 1H-19, and to recover in Q3-19. Marine Shipping industry is highly competitive and saturated, as the supply of vessels surpass demand. The new IMO regulation of lower Sulphur oxide will force shipping companies to retire its old vessel, therefore, reducing the oversupply in the market. However, the number of vessels to retire as result is not visible. The agreement of OPEC members to cut oil production is main concern if KSA's exports reduced as result. Lower shipping rate and finance cost are the main down side risk to valuation. Higher than expected shipping rate is the main upside risk to valuation. The company is trading at forward P/E and P/B of 20.29x and 1.27x. We update our recommendation to **"Neutral"** with updated PT of **32.5/share**.

Results Summary

SARmn (unless specified)	Q4-17	Q3-18	Q4-18	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1433.6	1393.9	1781.7	24.29%	27.82%	3.32%
Gross Profit	365.8	203.9	398.1	8.83%	95.24%	2.55%
Gross Margin	25.5%	14.6%	22.3%	-	-	-
EBIT	276.4	141.6	386.2	39.73%	172.74%	15.82%
Net Profit	207.0	81.3	91.4	-55.85%	12.42%	-58.66%
EPS	0.53	0.21	0.23			

Source: Company Reports, Aljazira Capital *NM: Not meaningful

Neutral

Target Price (SAR) **32.5**

Upside / (Downside)* **2.6%**

Source: Tadawul *prices as of 31st of January 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	6045.8	6129.9	6027.8
Gross Profit	1320.7	1240.2	1236.4
Net Profit	800.3	481.2	616.0
EPS	2.03	1.22	1.56

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	21.8%	20.2%	20.5%
Net Margin	13.2%	7.8%	10.2%
P/E	15.42x	27.33x	20.29x
P/B	1.24x	1.34x	1.27x
EV/EBITDA (x)	10.85x	11.31x	10.22x
Dividend Yield	4.8%	4.5%	4.7%

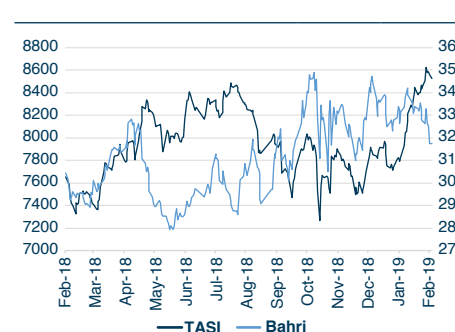
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	12.56
YTD %	4.9
Shares Outstanding (mn)	393.75
52 Week High/ Low	35.15/27.90

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Analyst

Waleed Al-jubayr

+966 11 2256146

W.aljubayr@aljaziracapital.com.sa

RESEARCH DIVISION

Head of Research

Talha Nazar

+966 11 2256250

t.nazar@aljaziracapital.com.sa

Analyst

Muhanad Al-Odan

+966 11 2256115

M.alodan@aljaziracapital.com.sa

Analyst

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa

Analyst

Waleed Al-jubayr

+966 11 2256146

W.aljubayr@aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales

Alaa Al-Yousef

+966 11 2256060

a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutional brokerage

Luay Jawad Al-Motawa

+966 11 2256277

l.almutawa@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province

Abdullah Al-Rahit

+966 16 3617547

a.alrahit@aljaziracapital.com.sa

AGM-Head of Sales And Investment Centers

Central Region, & acting head Western and

Southern Region Investment Centers

Sultan Ibrahim AL-Mutawa

+966 11 2256364

s.almutawa@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities may, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Corporate Finance | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068