Bahri
Transport – Industrial
NSCSA AB: Saudi Arabia
07 March 2018

الراجحي المالية
Al Rajhi Capital

US$3.097bn	52%	US$3.085mn
Market cap	Free float	Avg. daily volume

Target price	UR*	
Current price	29.50	as at 28/2/2018

* Under Review

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Performance

Source: Bloomberg

Note: Financial and Valuation snapshots will be published after our review of estimates and target price

Bahri
Q4: Mixed set of results

Bahri's Q4 2017 was a mixed set with lower than expected revenue (13.5% y-o-y decline, higher than our estimate of 11% decline) but a much higher operating margin (23% vs. our estimate of 14.9%). Despite operating profit beat of SAR110mn, and higher than expected share of profit from Petredec (30.3% JV, Q4 share of profit at SAR34.4mn vs. estimate of SAR24mn), the reported net profit stood just SAR55.6mn higher vs. our estimate. We believe this could be a result of one-off loss to the tune of SAR50mn. We will await the release of detailed financials to assess what exactly drove this beat on operating profit and also the one-off loss, and until then we do not attempt changing our estimates and we also place our target price under review. After 3 years of VLCC supply outstripping the crude oil transportation demand, the industry is inching towards a supply-demand balance in 2018, led by (a) lower deliveries of VLCCs and increased scrapping, leading to net increase in VLCCs by just 3-3.5% for 2018, and (b) higher demand for crude oil transportation, forecast at approx. 4% growth this year. However, the VLCC rates will start increasing with a lag and are likely to be more pronounced in 2019/ 2020 in our view. Even though the VLCC rates may rise (we forecast 9% CAGR over 2017-2020), we would like to err on the side of caution as rising day rates might delay planned scrapping of vessels and new capacity additions might start to inch up. Finally, crude oil (WTI spot) staying above $60/bbl means little possibility of increased floating storage demand, and it also means costlier bunker fuel, which could weigh on margins. The clean tanker, container and dry bulk rates have started firming up – a positive for Bahri, but they together contribute just 1/3rd of the consolidated revenue. We will review our estimates once the detailed financials have been released, until then we place our target price under review. For reference of investors, our last published target price on Bahri stood at SAR30.0 per share.

- **Outlook:** We believe the average VLCC day rates in 2018 will be similar to that in 2017, with a slightly upward bias. However, 2018 will witness the complete benefit of 5 new VLCCs delivered in 2017 and another 5 VLCCs are scheduled to be delivered this year. While 2018 revenue growth will be driven by higher number of VLCCs, we believe the margin will be under pressure from increased bunker fuel prices. Other segments i.e. product tankers, containers and dry bulk have started to witness higher rates and hence should lead to better operating profitability in these segments. Most of these trends are already incorporated in our prior estimates, however, we will publish new estimates after the release of detailed financials.

Figure 1 Bahri: Summary of Q4 2017 results

(SAR mn)	Q4 2016	Q3 2017	Q4 2017	% chg YoY	% chg QoQ	ARC est
Revenue	1,658	1,284	1,434	-14%	12%	1,478
Gross profit	364	210	366	1%	75%	257
Gross profit margin	21.9%	16.3%	25.5%			17.4%
Operating profit	350	173	330	-6%	91%	220
Net profit	328	61	207	-37%	242%	151

Source: Company data, Al Rajhi Capital

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