

1Q20 Results Update

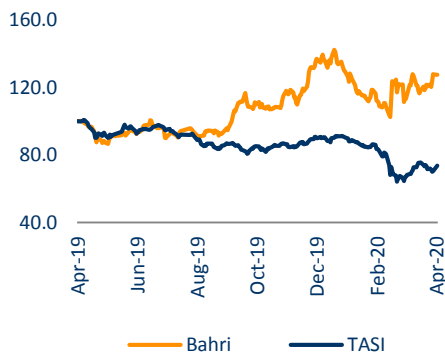
May 10, 2020

Recommendation	Neutral
Previous Recommendation	-
Current Price (SAR)	36.0
Target Price (SAR)	38.0
Upside/Downside (%)	5.6%
<i>As of April 30th, 2020</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	14.2
52-Wk High (SAR)	41.1
52-Wk Low (SAR)	24.5
Total Outstanding shares (in mn)	394
Free Float (%)	79.8%

Bahri vs. TASI (Rebased)

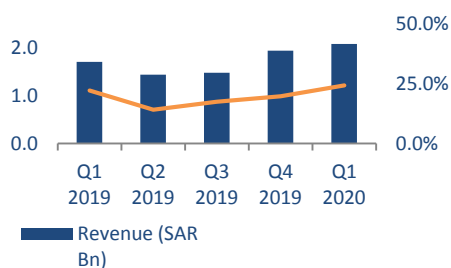


Price Performance (%)	Absolute	Relative
1m	3.6%	(8.0%)
6m	13.9%	22.6%
12m	25.9%	49.4%

Major Shareholders (%)

Public Investment Fund	22.6%
Saudi Aramco for development company	20.0%

Revenue (SAR bn) and Operating Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 30th April 2020

Higher voyages and increased transportation rates lift Bahri's performance in 1Q20

National Shipping Co. (Bahri) recorded a sharp rise in revenue (up 22.1% YoY to SAR 2.1bn), aided by strong performance in the oil transportation segment that was lifted by a raise in the transportation rates and increased number of voyages. Despite an increase in the SG&A expenses, lower financing costs and profit contribution from associates helped lift the company's bottom line. Net income attributable to the shareholders for the quarter more than doubled to SAR 419.2mn, compared with SAR 179.3mn in 2019. In view of the factors mentioned above, the company's net profit margin jumped to 20.1% YoY in 1Q20, compared with 10.5% for the comparable period a year ago.

Bahri benefitted majorly from the performance of the tanker segment, as the transportation rates improved owing to falling oil prices (VLCC rates are negatively related to oil prices). In March 2020, demand for vessels led to a surge in VLCC spot rates (up 728% MoM) in response to the need for creating floating storage for Saudi Arabia's oil export, as traders scurried to lock in low oil prices (down 55% MoM). Since the oil segment is the highest revenue contributor for the company, it helped offset the decline in the performance of the dry bulk and logistics segments. Going forward, we expect Bahri to report stable revenues for the year amid COVID-19 crisis, as world trade is expected to decline following the expected economic contraction in 2020. The oil price too may stabilize during the second half of the year, but IEA predicts that the overall demand for oil is expected to contract in 2020. Therefore, in view of the above countervailing factors, we maintain a 'Neutral' rating on the stock.

- Revenues increased 22.1% YoY to SAR 2.1bn, as the underperformance of logistics and dry bulk segments was offset by the extraordinary performance of the oil and chemical segments. The company benefitted from the growth in the oil segment due to increased transportation rates and higher number of voyages.
- Despite a sharp drop in the bunker subsidy over the comparable period, gross profit (after bunker subsidy) advanced 31.7% YoY to SAR 561.3mn in 1Q20, following the healthy growth in the top line and controlled operating costs. The gross profit margin advanced to 27.0% YoY, compared with 25% in 2019.
- Operating income grew 34.1% YoY and 32.2% QoQ to SAR 505.8mn in 1Q20, reflecting the improvement in EBITDA. The operating margin improved to 24.3% YoY in 1Q20, compared with 22.1% YoY in 1Q19.
- Financial expenses significantly declined by 41.5% YoY to SAR 84mn, and the share in the results of the equity associates swung to a profit against losses last year, leading to an overall increase in the company's net profit to SAR 419.2mn, up 133.8% YoY.
- Lower loan repayment and proceeds from disposal of PPE helped grow the company's cash to SAR 423mn. The debt-to-equity ratio lowered to 0.93x in 1Q20, compared with 0.98x in 1Q19 and 0.99x in 4Q19.

Valuation: We maintain our target price at SAR 38.0 and retain our "Neutral" rating on the stock.

	1Q20	1Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	2,082.2	1,705.8	22.1%	6,562.6	6,567.0	(0.1%)
Gross Profit (SAR mn- incl bunker subsidy)	561.3	426.2	31.7%	1,406.1	1,427.0	(1.5%)
Operating Profit (SAR mn)	505.8	377.2	34.1%	1,198.4	1,223.0	(2.0%)
Net Profit (SAR mn)	419.2	179.3	133.8%	605.3	620.7	(2.5%)
EPS Basic (SAR)	1.1	0.5	133.8%	1.5	1.6	(2.5%)
Gross Margin (%- Incl. bunker subsidy)	27.0%	25.0%	2.0%	21.4%	21.7%	(0.3%)
Operating Margin (%)	24.3%	22.1%	2.2%	18.3%	18.6%	(0.4%)
Net Profit Margin (%)	20.1%	10.5%	9.6%	9.2%	9.5%	(0.2%)

Source: Company Financials, FALCOM Research

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FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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