

3Q20 Results Update

December 15, 2020

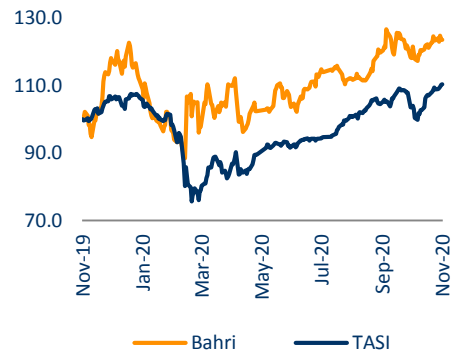
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	41.1
Target Price (SAR)	40.0
Upside/Downside (%)	(2.7%)

As of November 26, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	16.2
52-Wk High (SAR)	42.5
52-Wk Low (SAR)	27.0
Total Outstanding Shares (in mn)	394
Free Float (%)	79.2%

Bahri vs. TASI (Rebased)

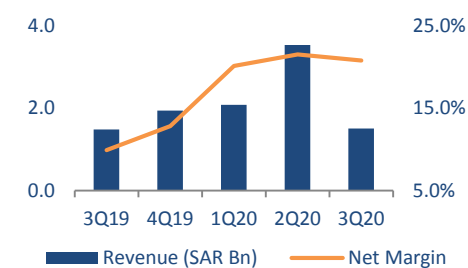


Price Performance (%)	Absolute	Relative
1m	4.6%	(2.0%)
6m	20.7%	(2.6%)
12m	23.6%	13.3%

Major Shareholders (%)

Public Investment Fund	22.55%
Saudi Aramco for Development Company	20.00%

Revenue (SAR bn) and Net Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of November 26, 2020

Higher top line, lower financial costs support Bahri's 3Q20 bottom line; margins expand

National Shipping Company (Bahri)'s revenue surged 1.9% YoY to SAR 1.5bn in 3Q20 owing to the oil segment's strong performance (+14.7% YoY to SAR 0.9bn), largely aided by increase in transportation rates as compared to 3Q19. Operating profit rose 17.1% YoY to SAR 303.2mn on the increase in top line. Net profit increased 113.8% YoY to SAR 313.7mn, supported by lower financial costs and zakat expense. Consequently, the net profit margin expanded 1087.0 bps YoY to 20.8% in 3Q20.

Bahri's performance in 3Q20 was primarily driven by the oil tanker segment, as transportation rates remained high due to range-bound oil prices (VLCC rates being negatively related to oil prices) in 3Q20 compared with 3Q19. According to EIA, oil prices are anticipated to remain range-bound in the near term, with spikes in COVID-19 cases and the rising possibility of further lockdowns before a vaccine is released. However, with the vaccine in sight, the global economy may rebound; this could lift oil prices in the medium term and negatively impact transportation rates. Therefore, considering these factors, we continue to maintain a "Neutral" rating on the stock.

- Revenues increased 1.9% YoY to SAR 1.5bn in 3Q20, supported by higher revenue contribution from the oil transportation and chemical transportation segments.
- Decline in operating costs and bunker subsidy during 3Q20 resulted in a 28.3% YoY surge in gross profit to SAR 379.9mn. Gross margin for the quarter expanded to 25.2% from 20.0% in 3Q19.
- A higher top line offset the rise in G&A expenses and resulted in 17.1% YoY rise in operating profit to SAR 303.2mn. As a result, the operating margin improved to 20.1% in 3Q20 from 17.5% in 3Q19.
- Decrease in zakat expense due to reversal of deferred tax provision, coupled with lower financial costs and higher profit share from associate companies, led Bahri to report a 113.8% YoY rise in net profit (attributable to equity holders) to SAR 313.7mn. Consequently, the net margin widened to 20.8% in 3Q20 as against 9.9% in 3Q19.
- On August 20, Bahri's subsidiary National Chemical Carriers Co. inked a contract worth SAR 1.54bn with Hyundai MIPO Dockyard Co. to construct 10 chemical tankers. The tankers, with a capacity of ~50,000 DWT and worth SAR 153.8mn, will be delivered during 1Q22-23.
- On August 24, Bahri signed a deal with Saudi Agricultural and Livestock Investment Company to establish National Grain Company worth SAR 412.5mn as a 50-50 joint venture (JV). The JV would develop a terminal to handle grains at the Yanbu Commercial Port spanning 313,000 sq. m. with storage capacity of 280,000 tons and production capacity of 3-5mn tons per annum.
- In September 2020, Bahri added two carriers, Alanood and AlJazi, to its dry bulk fleet. This took Bahri's fleet count under the dry bulk segment to 8 and total fleet count to 88.
- On September 21, Bahri altered its dividend policy and announced that it would distribute SAR 2.0 per share as dividend each year (SAR 1.0 per share semi-annually) during 2020-22.

Valuation: We revise our target price to SAR 40.0 and retain our "Neutral" rating on the stock.

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	1,510.3	1,481.6	1.9%	8,592.2	6,567.0	30.8%
Gross Profit (SAR mn- incl bunker subsidy)	379.9	296.1	28.3%	2,317.9	1,427.0	62.4%
Operating Profit (SAR mn)	303.2	259.0	17.1%	2,087.2	1,223.0	70.7%
Net Profit (SAR mn)	313.7	146.7	113.8%	1,828.6	620.7	194.6%
EPS Basic (SAR)	0.80	0.37	113.8%	4.64	1.58	194.6%
Gross Margin (%- Incl. bunker subsidy)	25.2%	20.0%	5.2%	27.0%	21.7%	5.2%
Operating Margin (%)	20.1%	17.5%	2.6%	24.3%	18.6%	5.7%
Net Profit Margin (%)	20.8%	9.9%	10.9%	21.3%	9.5%	11.8%

Source: Company Financials, FALCOM Research

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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