

Initiation Coverage

April 26, 2020

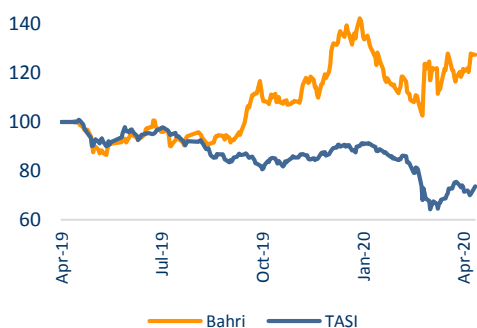
Recommendation	Neutral
Current Price (SAR)	36.6
Target Price (SAR)	38.0
Upside/Downside (%)	4.0%

As of April 26, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	14.4
52 Wk High (SAR)	41.1
52 Wk Low (SAR)	24.5
Total Outstanding shares (in mn)	394
Free Float (%)	79.8%

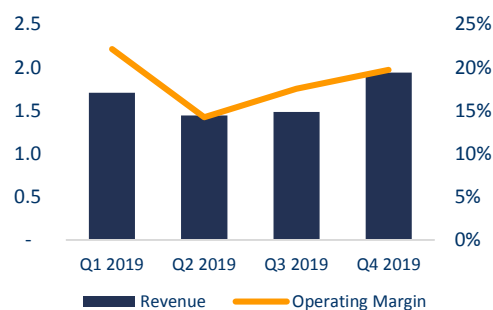
Bahri Vs TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	10.4%	2.3%
6m	16.0%	29.6%
12m	27.6%	53.8%

Major Shareholders (%)	%
Public Investment Fund	22.6%
Saudi Aramco for development company	20.0%

Quarterly Sales (SAR bn) and Operating Margin



Source: Bloomberg, Company Financials, Falcom Research; Data as of 26th April 2020

National Shipping Company of Saudi Arabia's (Bahri) net income jumped 29.0% YoY to SAR 620.7mn in FY19. The oil transportation segment benefitted from improved rates that helped offset the decline in revenues from the logistics services segment. Moreover, the trimmed share of losses of associates helped the company cover up for high financial charges and provisions during the year.

We initiate Bahri with a "Neutral" rating, as the company is navigating through the testing times faced by the shipping industry. Bahri is strategically located between three continents and has managed to continue uninterrupted operations even during the crisis through well-planned business continuity strategies. Furthermore, high reliance on revenues from the oil segment is expected to even out the low demand from other segments.

Bahri needs to sail amid macroeconomic uncertainty and oil price volatility

The IMF predicts a global economic contraction of 3%, whereas the WTO forecasts 13–32% fall in world trade for 2020 due to the COVID-19 pandemic leading to uncertainty for the transport sector with fluctuating maritime rates. This comes after a tough 2019 marred by increasing trade tariffs and rising geopolitical tensions that impacted global trade. The oil price war that began early this year after Russia refused to comply with the OPEC production cuts further exacerbated the situation. Although the OPEC has reached a new production cut deal and the IEA predicts a recovery in oil demand in 2H20, the overall oil demand for 2020 is likely to contract.

Bahri attempts to diversify income channels while gaining from "stable" tanker segment

Revenue from the oil transportation segment rose 7.2% YoY and contributed 60.3% to the company's revenues in FY19 owing to improved transportation rates (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). Moody's expects the tanker segment's performance to remain "stable," which may offer stability to Bahri's top line. Furthermore, the company continues to diversify its income channels through expansions in logistic operations and shipbuilding. In 2019, Bahri signed an MOU with Hyundai IMI to build oil tankers for heavy industries.

Adherence to IMO emission standards may impact gains from operational efficiency

As the owner and operator of the largest VLCC fleet in the world, Bahri benefits from several key strategic contracts that enable it to achieve competitive results. Despite low oil demand and low oil prices, the company managed to improve its operating margins (up 60 bps YoY) through optimal fleet scheduling and itinerary management. The high correlation between bunker costs and oil prices has also helped contain total direct costs. However, adherence to IMO standards to reduce sulphur emissions since January 2020 may raise shipping costs.

Valuation: We valued Bahri using the DCF approach to arrive at a Fair Value of SAR 38.0 per share. We considered WACC at 6.9% with a terminal growth rate of 2.0%.

	2019	2020e	2021e	2022e
Revenues (SAR bn)	6.6	6.6	7.0	7.2
Operating Profit (SAR bn)	1.2	1.2	1.2	1.2
EPS (SAR)	1.6	1.5	1.6	1.7
Operating Margin (%)	18.6%	18.3%	17.4%	17.2%
RoE (%)	6.7%	6.4%	6.6%	6.6%
D/E (x)	1.0x	0.9x	0.9x	0.8x
P/E (x)	31.0x	23.8x	22.6x	21.8x
P/B (x)	2.0x	1.5x	1.4x	1.4x
EV/EBITDA (x)	13.6x	11.1x	10.5x	10.3x

Source: Company Financials, Falcom Research

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Valuation Summary

Explanation of the valuation methodology and assumptions

We valued Bahri using the DCF approach to arrive at a fair value of SAR 38.0 per share. We considered WACC at 6.9% with a terminal growth rate of 2.0%.

In relative terms, Bahri is trading at a PE of 31x, showing a premium of 17.6% to its sector peers and an EV/EBITDA multiple of 13.6x at a premium of 2.9% to its peers.

SAR Mn	FY 2019A	FY 2020E	FY 2021E	FY 2022E	FY 2023E	
EBIT	1,223	1,198	1,224	1,235	1,250	
Taxes	(92)	(100)	(105)	(108)	(112)	
Depreciation, amortization and impairment	914	933	1,002	1,020	1,078	
Changes in working capital	202	(23)	(162)	(187)	(295)	
Net capital expenditure	(189)	(668)	(702)	(707)	(713)	
Free Cash Flow to firm	2,058	1,340	1,257	1,252	1,208	
<i>Discount Factor</i>		1.0	0.9	0.8	0.8	
PV of free cash flow to firm		1,277	1,120	1,044	942	
Net Present Value (A)					4,383	
PV Terminal Value (B)					19,716	
Assumed Terminal Growth Rate					2.0%	
Discount Rate					6.9%	
Enterprise Value (A+B)	24,099	WACC Assumptions				
Total Cash	798	Risk free rate				2.6%
Total Debt	9,552	Market returns				7.2%
Minority Interest	465	Beta				0.9x
Equity Value in SAR mn	14,880	Cost of equity				9.0%
Number of shares in mn	394	Post tax cost of debt				4.8%
Target Price in SAR per share	38.0	Weight of equity in capital structure				49.1%
CMP in SAR as on April 26th 2020	36.6	Weight of debt in capital structure				50.9%
Upside/(Downside) to current market price	4.0%	WACC				6.9%

Source: Company Financials, Falcom Research Estimates

Risks

Upside Risks:

- China is a prominent consumer of crude oil, a robust economic recovery post the COVID -19 crisis could boost overall oil demand and for other products as well
- The oil price trades lower than anticipated along with rising demand leading to higher revenues from the transportation segment

Downside Risks

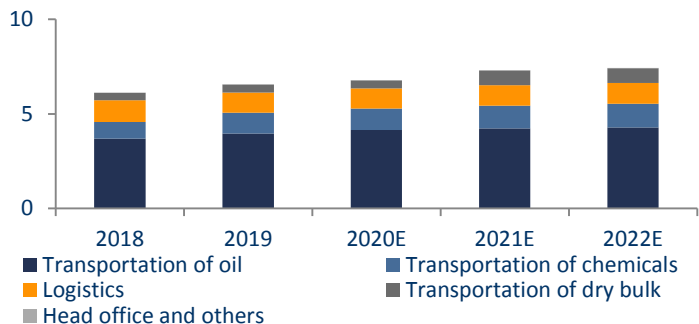
- Implementation of higher protectionist trade policies and disruptions in the supply chain could pose huge challenges for the container business
- Any fallout among the OPEC countries for production cut implementation can cause severe volatility in the oil market

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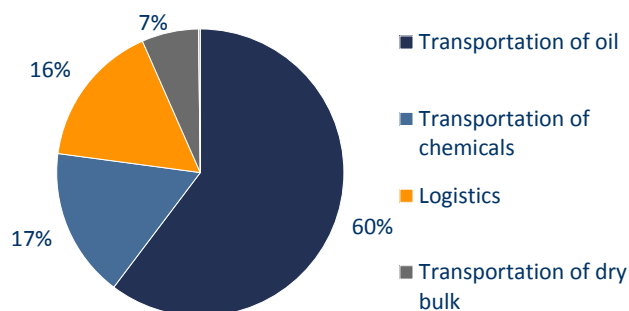
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Key Charts

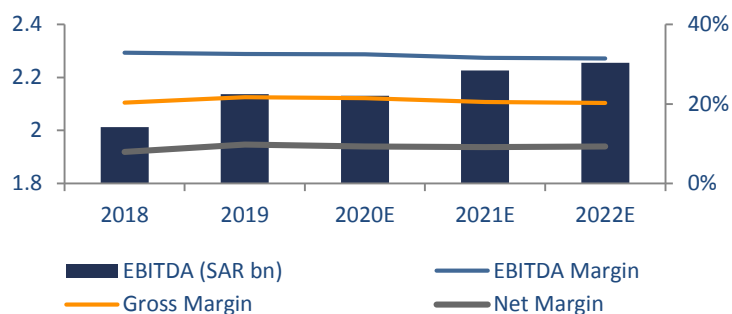
Revenue (SAR bn)



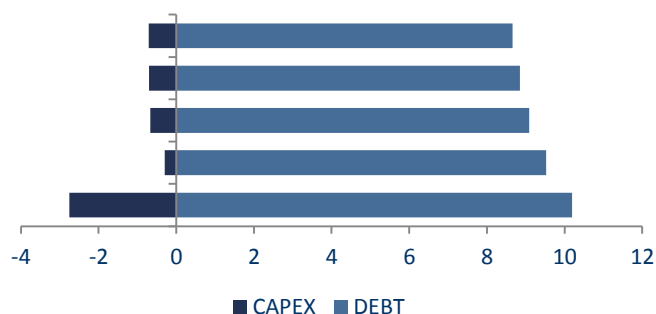
Revenue Split (2019)



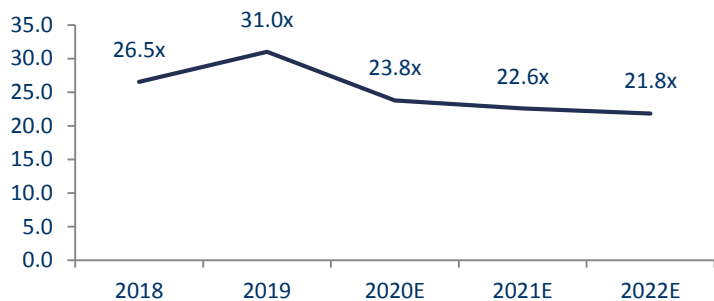
EBITDA & Margins



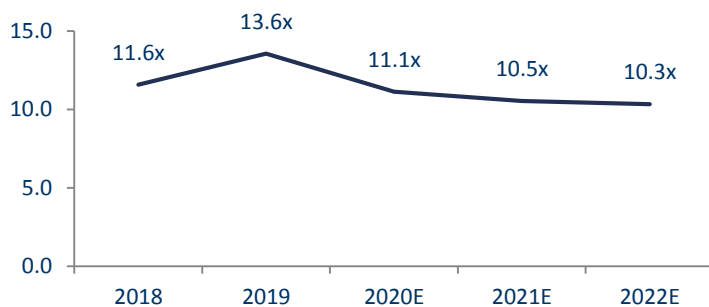
CAPEX and Total Debt



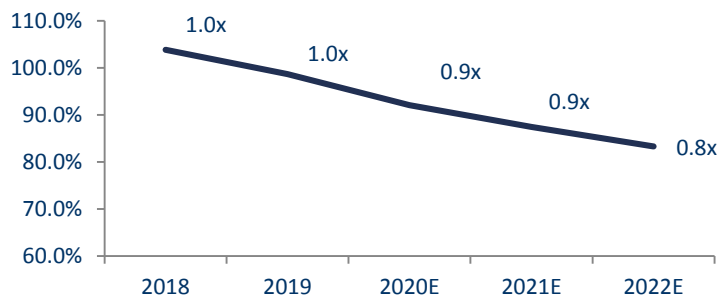
Price to Earnings



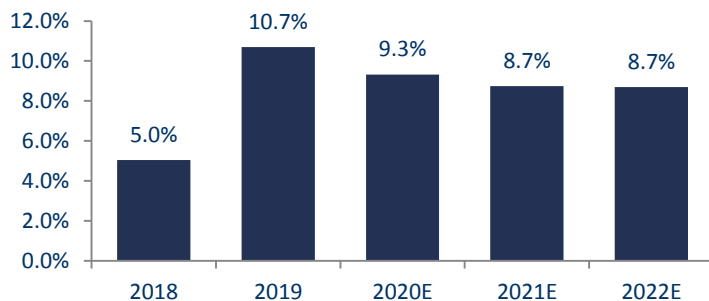
EV/EBITDA



Debt/Equity



Free Cash Flow Yield



Source: Falcom Research Estimates

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Summary Financials

P&L (SAR mn)	2019	2020e	2021e	2022e
Sales	6,567	6,563	7,046	7,177
Gross Profit	1,427	1,406	1,442	1,452
EBITDA	2,137	2,131	2,226	2,255
EBIT	1,223	1,198	1,224	1,235
G&A Expenses	(154)	(167)	(179)	(176)
Finance costs	(464)	(464)	(451)	(437)
Other	29	33	33	35
PBT	736	711	750	774
Zakat	(92)	(100)	(105)	(108)
Minorities	23	6	6	7
Net Income	621	605	638	659
EPS	1.6	1.5	1.6	1.7
DPS	1.5	1.0	1.0	1.0

BS (SAR mn)	2019	2020e	2021e	2022e
Cash	246	269	331	410
Current Assets	3,622	3,666	4,077	4,513
Fixed Assets	14,738	14,288	13,808	13,320
Intangibles	622	584	546	507
Total Assets	20,561	20,260	20,290	20,332
Current Liabilities	2,338	2,057	2,075	2,034
Short Term Debt	1,142	938	938	938
Long Term Debt	8,387	8,148	7,910	7,722
Shareholders Equities	9,212	9,424	9,668	9,934
Total Liabilities	10,884	10,365	10,145	9,915

CF (SAR mn)	2019	2020e	2021e	2022e
Operating Cash Flow	2,226	1,544	1,647	1,686
Working Capital Changes	-202	23	162	187
Cash Flow from Operating Activities	1,690	1,498	1,454	1,468
Capex	(189)	(668)	(702)	(707)
Cash Flow from Investing Activities	(15)	(587)	(621)	(627)
Changes in Debt	(679)	(442)	(238)	(188)
Dividends	(786)	(394)	(394)	(394)
Cash Flow from Financing Activities	(1,470)	(836)	(632)	(582)

Growth	2019	2020e	2021e	2022e
Revenue	7.1%	(0.1%)	7.4%	1.9%
EBITDA	6.2%	(0.3%)	4.4%	1.3%
Operating profit	12.4%	(2.0%)	2.1%	0.9%
PBT	26.7%	(3.3%)	5.4%	3.3%
Net Income	29.0%	(2.5%)	5.4%	3.3%

Ratios (%)	2019	2020e	2021e	2022e
Gross Margin	18.2%	17.9%	17.1%	16.9%
EBITDA Margin	32.5%	32.5%	31.6%	31.4%
EBIT Margin	18.6%	18.3%	17.4%	17.2%
Net Margin	9.5%	9.2%	9.1%	9.2%
ROE	6.7%	6.4%	6.6%	6.6%
ROA	3.0%	3.0%	3.1%	3.2%
ROCE	3.4%	3.3%	3.5%	3.6%
Debt/Equity	1.0x	0.9x	0.9x	0.8x
Net Debt/EBITDA	4.1x	3.9x	3.5x	3.3x
FCF Yield	10.7%	9.3%	8.7%	8.7%
Dividend Yield	3.1%	2.7%	2.7%	2.7%

Valuation	2019	2020e	2021e	2022e
P/E	31.0x	23.8x	22.6x	21.8x
P/B	2.0x	1.5x	1.4x	1.4x
EV/EBITDA	13.6x	11.1x	10.5x	10.3x
EV/EBIT	23.7x	19.8x	19.2x	18.8x
EV/Sales	4.4x	3.6x	3.3x	3.2x

Peer Valuations	P/E (2019)	EV/EBITDA (2019)
Euronav (BRU)	22.4 x	7.7 x
A.P. Møller-Mærsk B	63.2 x	7.2 x
Dampskibsselskabet Norden	33.4 x	5.1 x
China Merchants Co Ltd	34.6 x	36.7 x
COSCO shipping co ltd	26.8 x	23.1 x
Nanjing tanker corp	21.0 x	18.0x
DHT Holdings	17.1 x	7.9 x
National Shipping	31.0x	13.6x
Sector Median	22.4x	11.2x
Premium/ (Discount)	17.6%	2.9%

Source: Bloomberg, 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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