

2Q20 Results Update

August 15, 2020

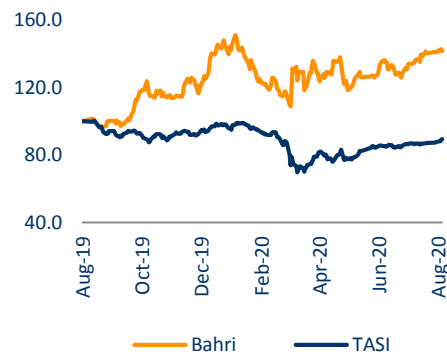
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	38.3
Target Price (SAR)	39.0
Upside/Downside (%)	1.8%

As of August 12th, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	15.1
52-Wk High (SAR)	41.1
52-Wk Low (SAR)	25.8
Total Outstanding shares (in mn)	394
Free Float (%)	79.8%

Bahri vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	5.8%	2.9%
6m	15.9%	19.3%
12m	41.9%	52.5%

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 12th August 2020

Oil transportation segment boosts Bahri's 2Q20 bottom line

National Shipping Co. (Bahri)'s revenue surged by 145.3% YoY and 69.7% QoQ to SAR 3.5bn in 2Q20 following the strong performance of the Oil Transportation segment (+138.0% YoY; +183.5% QoQ in Oil Transportation segment revenue). The segment's revenue was aided by higher transportation rates and increase in number of voyages for most part of the quarter. The company's operating profit margin expanded due to a reduction in SG&A expenses, lower provisions and higher top line. Lower financing costs due to reduction in debt and positive contribution from associates compared to 2Q19 resulted in a sharp improvement in the company's bottom line. Net income attributable to shareholders rose significantly to SAR 760.6mn from SAR 45.6mn in 2Q19. Due to these factors, the company's overall net profit margin expanded significantly to 21.5% in 2Q20 from 3.2% in 2Q19.

The improvement in Bahri's financial performance in 2Q20 can be largely ascribed to the tanker segment, as transportation rates remained high for most part of the quarter owing to lower oil prices (VLCC rates are negatively related to oil prices). Demand for vessels remained high during the initial months of the quarter on account of floating storage requirement for the nation's oil export. This pushed VLCC rates higher. However, rates started to decline by the end of 2Q20 as oil prices began to recover following the announcement of additional production cuts by OPEC. Although demand for oil is expected to remain low, going forward, due to COVID-19, we expect Bahri to report stable revenues for the year. The company's other segments are expected to be adversely affected by the anticipated contraction in economic activity and decline in global trade in 2020. Therefore, in view of the countervailing factors mentioned above, we maintain a 'Neutral' rating on the stock.

- Revenues increased sharply by 145.3% YoY to SAR 3.5bn in 2Q20, supported primarily by a surge in revenues in the Oil Transportation and Chemical Transportation segments. The decline in logistics and dry bulk transportation segments was offset by the strong performance of the oil segment, largely aided by increase in transportation rates and number of voyages.
- Sharp drop in bunker subsidy, as compared to 2Q19, considerably impacted gross profit that surged 300.9% YoY to SAR 962.6mn. Gross margin for the quarter expanded to 27.3% from 12.0% in 2Q19.
- Operating profit rose by 348.0% YoY and 80.9% QoQ to SAR 915.2mn in 2Q20 due to significant improvement in EBITDA. Operating margin improved by 1172.4 bps YoY to 25.9%.
- Bahri's financial expenses declined by 39.0% YoY to SAR 72.0mn. Moreover, the share in the results of the equity associates turned positive and recorded a profit of SAR 25.4mn in 2Q20. These factors further supported the company's net profit, which increased manifold to SAR 781.3mn.
- Higher net income and improved working capital efficiency boosted the company's cash balance to SAR 635.4mn. Also, its debt-to-equity ratio declined to 0.87x in 2Q20 from 1.02x in 2Q19 and 0.93x in 1Q20.

Valuation: We revise our target price to SAR 39.0 and retain our "Neutral" rating on the stock.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	3,532.4	1,440.3	145.3%	6,562.6	6,567.0	(0.1%)
Gross Profit (SAR mn- incl bunker subsidy)	962.6	240.1	300.9%	1,406.1	1,427.0	(1.5%)
Operating Profit (SAR mn)	915.2	204.3	348.0%	1,198.4	1,223.0	(2.0%)
Net Profit (SAR mn)	760.6	45.6	1569.0%	605.3	620.7	(2.5%)
EPS Basic (SAR)	193.2%	11.6%	1569.0%	153.7%	157.6%	(2.5%)
Gross Margin (%- Incl. bunker subsidy)	27.3%	16.7%	10.6%	21.4%	21.7%	(0.3%)
Operating Margin (%)	25.9%	14.2%	11.7%	18.3%	18.6%	(0.4%)
Net Profit Margin (%)	21.5%	3.2%	18.4%	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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