

2Q21 Results Update

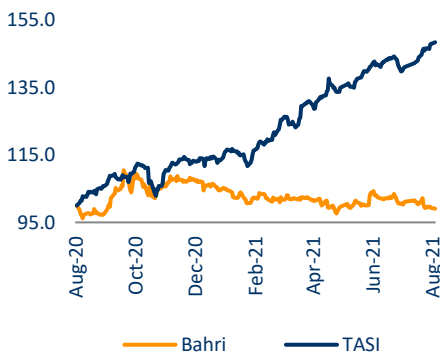
August 16, 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	37.8
Target Price (SAR)	37.0
Upside/Downside (%)	(2.1%)
<i>As of August 15, 2021</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	14.9
52-Wk High (SAR)	42.5
52-Wk Low (SAR)	36.3
Total Outstanding Shares (in mn)	394
Free Float (%)	80.0%

Bahri vs. TASI (Rebased)

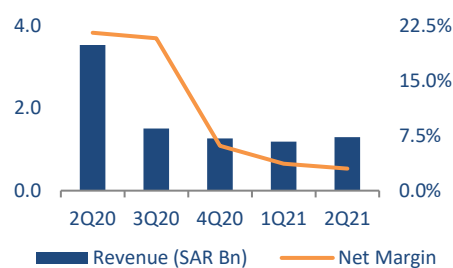


Price Performance (%)	Absolute	Relative
1m	(2.1%)	(7.2%)
6m	(3.3%)	(29.0%)
12m	(0.9%)	(49.4%)

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 August 15, 2021

Decline in transportation volume, price hurts bottom line in 2Q21

National Shipping Company (Bahri)'s revenue fell 63.3% YoY to SAR 1.3bn in 2Q21 on significantly lower revenue from the Oil Transportation segment. Gross profit* slipped 86.8% YoY to SAR 127.3mn, while gross margin* shrank 1,742 bps YoY to 9.8%. Operating profit slumped 89.1% YoY to SAR 99.6mn on higher G&A expense, causing operating margin to contract 1,822 bps YoY to 7.7% in 2Q21. Lower margins and profit share from associate companies weighed on net profit (attributable to equity holders), which plummeted 94.9% YoY to SAR 38.9mn. As a result, net margin tightened 1,853 bps YoY to 3.0% in 2Q21.

Bahri reported a sharp YoY drop in the top line and bottom line in 1H21. The dip in performance in 1H21 was primarily due to the plunge in revenue from the Oil Tanker segment (down 67.4% YoY to SAR 1.4bn) during the period. Decline in revenue from the Chemical Transportation (down 19.9% YoY to SAR 0.5bn) and Logistics (down 18.8% YoY to SAR 0.4bn) segments also weighed on the top line in 2Q21. Low Oil Tanker segment performance can be attributed to the steep decline in global transportation rates and reduced shipping operations during the period. The unwinding of floating storage on ships resulted in an abundance of storage vessels, leading to a sharp decline in transportation rates during the quarter. Moreover, rise in COVID-19 cases in India, the second largest seaborne crude oil importer after China, led to reduced demand for crude oil and petrochemical shipping operations and translated into lower tanker rates in 2Q21. The EIA estimates oil prices would remain rangebound in 2H21, as increasing cases of the delta variant of coronavirus across the globe may soften demand for Brent and petrochemicals. Furthermore, the EIA forecasts rising production by the OPEC+ alliance and increasing tight oil inventories by the US may outpace global oil consumption in FY22 and reduce oil prices. This could positively affect transportation rates (VLCC rates are negatively related to oil prices) and support Bahri's bottom line. In view of these countervailing factors, we continue to maintain a "Neutral" rating on the stock.

- Revenue nosedived 63.3% YoY to SAR 1.3bn in 2Q21, primarily due to a sharp drop in revenue from Oil Transportation segment during the quarter.
- Gross profit* slumped 86.8% YoY to SAR 127.3mn as the reduction in the top line offset the drop in operating costs and rise in bunker subsidy in 2Q21. Consequently, gross margin* narrowed to 9.8% from 27.3% in 2Q20.
- Higher G&A expense offset higher other income and resulted in an 89.1% YoY dip in operating profit to SAR 99.6mn. As a result, operating margin contracted to 7.7% from 25.9% in 2Q20.
- Declining margins and reduced profit share from associate companies offset the drop in financing and zakat expenses and led to a 94.9% YoY plunge in net profit (attributable to equity holders) to SAR 38.9mn. Consequently, net margin tightened to 3.0% as against 21.5% in 2Q20.
- Bahri reported EPS of SAR 0.10 in 2Q21 as opposed to SAR 1.93 in 2Q20 and SAR 0.11 in 1Q21.
- Revenue was up 8.9% QoQ from SAR 1.2bn in 1Q21 due to higher revenue from the Logistics and Dry Bulk Transportation segments in 2Q21. However, net profit fell in 2Q21 from SAR 43.6mn in 1Q21 on account of lower profit contribution from associate companies and higher provision on trade receivables and contract assets in the second quarter.

Valuation: We maintain our target price at a fair value of SAR 37.0 and retain our "Neutral" rating on the stock.

	2Q21	2Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	1,294.8	3,532.4	(63.3%)	5,496.4	8,393.0	(34.5%)
Gross Profit (SAR mn)*	127.3	962.6	(86.8%)	880.1	2,121.8	(58.5%)
Operating Profit (SAR mn)	99.6	915.4	(89.1%)	728.7	1,865.9	(60.9%)
Net Profit (SAR mn)	38.9	760.6	(94.9%)	581.8	1,571.1	(63.0%)
EPS Basic (SAR)	0.10	1.93	(94.9%)	1.48	3.99	(63.0%)
Gross Margin (%)*	9.8%	27.3%	(17.4%)	16.0%	25.3%	(9.3%)
Operating Margin (%)	7.7%	25.9%	(18.2%)	13.3%	22.2%	(9.0%)
Net Profit Margin (%)	3.0%	21.5%	(18.5%)	10.6%	18.7%	(8.1%)

Source: Company Financials, FALCOM Research; *including bunker subsidy

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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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