

3Q21 Results Update

December 21, 2021

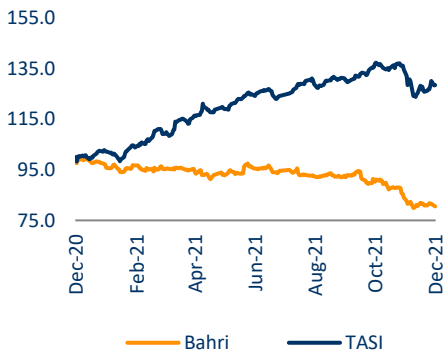
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	32.80
Target Price (SAR)	31.7
Upside/Downside (%)	(3.5%)

As of December 20, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	12.9
52-Wk High (SAR)	40.8
52-Wk Low (SAR)	32.5
Total Outstanding Shares (in mn)	394
Free Float (%)	80.0%

Bahri vs. TASI (Rebased)

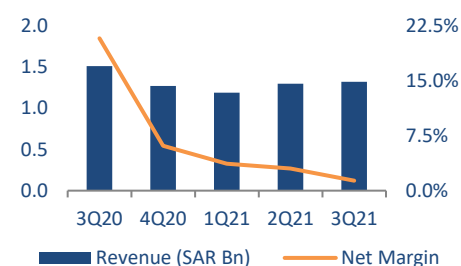


Price Performance (%)	Absolute	Relative
1m	(2.7%)	0.1%
6m	(15.7%)	(19.2%)
12m	(19.5%)	(48.1%)

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 December 20, 2021

Increase in fuel prices weighed on margin in 3Q21

National Shipping Company (Bahri)'s revenue dropped 12.6% YoY to SAR 1.3bn in 3Q21, ascribed to lower revenue from the Oil Transportation and Logistic segment. Gross profit* dipped 65.0% YoY to SAR 133.1mn due to increase in operating cost during the quarter, while gross margin* narrowed 1,508 bps YoY to 10.1%. Operating profit slipped 70.1% YoY to SAR 90.6mn on higher G&A expense, causing operating margin to contract 1,322 bps YoY to 6.9% in 3Q21. Lower topline and margins weighed on net profit (ascribed to equity holders), which plummeted 94.3% YoY to SAR 18.0mn. As a result, net margin tightened 1,941 bps YoY to 1.4% in 3Q21.

Bahri reported weak earnings in 3Q21 due to a decline in topline and higher operating expenses. The reduction in topline was ascribed to a decrease in revenue from multiple sectors, especially oil, by 18% due to the significant decline in global shipping rates and shipping operations. Moreover, revenue from the Logistic segment was down 21.9% YoY to SAR 190mn, while that from transportation of dry bulk rose 103.9% YoY to SAR 68mn in 3Q21. On QoQ basis, revenue increased 2.0% on improved performance of the Logistic and Dry Bulk Shipping sectors. The increase in fuel prices during the quarter resulted in rise in operating cost, which negatively impacted the margins of the company on YoY basis. Crude oil prices increased in 9M21 owing to steady draws on global oil inventories but fell significantly on November 26, following the identification of the new COVID-19 Omicron variant, which could cause petroleum demand to decline in the near term. The EIA expects that growth in production of US tight oil by OPEC+ and other non-OPEC countries will outpace the slowing growth in global oil consumption and reduce oil prices in FY22, especially in light of renewed concerns about COVID-19 variants. In FY22, Brent prices are expected to remain close to the current levels, averaging \$70/b, which could see margins improve in the near term. In view of these factors, we continue to maintain a "Neutral" rating on the stock.

- Revenue dipped 12.6% YoY to SAR 1.3bn in 3Q21, primarily due to lower revenue contribution from the Oil Transportation and Logistic segments during the quarter.
- Gross profit* slipped 65.0% YoY to SAR 133.1mn owing to lower topline and higher operating costs in 3Q21. Consequently, gross margin* narrowed to 10.1% from 25.2% in 3Q20.
- Lower topline coupled with rise in G&A expense resulted in a 70.1% YoY drop in operating profit to SAR 90.6mn. As a result, EBIT margin contracted to 6.9% from 20.1% in 3Q20.
- Decline in finance cost was offset by a lower profit share from associate companies and reduced margins, leading to a 94.3% YoY fall in net profit (attributable to equity holders) to SAR 18.0mn. Consequently, net margin tightened to 1.4% as against 20.8% in 3Q20.
- Bahri reported EPS of SAR 0.05 in 3Q21 as opposed to SAR 0.80 in 3Q20 and SAR 0.10 in 2Q21.
- Revenue inched up 2.0% QoQ from SAR 1.3bn in 2Q21 on improved performance in the Logistic and Dry Bulk Transportation segments in 3Q21. However, net profit fell in 3Q21 from SAR 38.9mn in 2Q21 due to decrease in other income and reduction in the company's share in results of equity accounted investees in the quarter.

Valuation: We revise our target price downward to a fair value of SAR 31.7 but maintain our "Neutral" rating on the stock.

	3Q21	3Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	1,320.6	1,510.3	(12.6%)	5,210.2	8,393.0	(37.9%)
Gross Profit (SAR mn)*	133.1	379.9	(65.0%)	492.1	2,121.8	(76.8%)
Operating Profit (SAR mn)	90.6	303.3	(70.1%)	364.6	1,865.9	(80.5%)
Net Profit (SAR mn)	18.0	313.7	(94.3%)	162.9	1,571.1	(89.6%)
EPS Basic (SAR)	0.05	0.80	(94.3%)	0.41	3.99	(89.6%)
Gross Margin (%)*	10.1%	25.2%	(15.1%)	9.4%	25.3%	(15.8%)
Operating Margin (%)	6.9%	20.1%	(13.2%)	7.0%	22.2%	(15.2%)
Net Profit Margin (%)	1.4%	20.8%	(19.4%)	3.1%	18.7%	(15.6%)

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

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, FALCOM Research.

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