Equity | Saudi Arabia | Transportation

8 December 2011

NSCSA

Expansion plans sink dividend

As the VLCC segment faces weak freight rates and high bunker fuel costs, we expect chemical carrier and RoRo segments to provide earnings stability. We believe dividend payouts are unlikely, given upcoming capital commitments.

Hold

Target price
SR11.12 (from SR16.33)

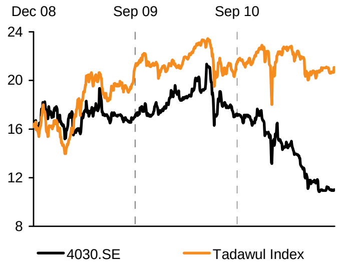
Price
SR11.00

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (SR)	10.95	11.75	16.55
Absolute (%)	0.5	-6.4	-33.5
Rel market (%)	0.4	-8.7	-31.6
Rel sector (%)	n/a	n/a	n/a



Market capitalisation
SR3.46bn (€687.68m)

Average (12M) daily turnover
SR18.46m (€3.49m)

Sector: European-DS Tot Mrkt
RIC: 4030.SE, NSCSA AB
Priced SR11.00 at close 6 Dec 2011.
Source: Bloomberg

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (SRm)	1,672	2,050	1,944	2,092	2,326
EBITDA (SRm)	806.4	851.2	650.0 ▼	504.1 ▼	647.3 ▼
Reported net profit (SRm)	369.3	414.9	188.6 ▼	-28.6 ▼	40.80 ▼
Normalised net profit (SRm)	369.3	414.9	188.6 ▼	-28.6 ▼	40.80 ▼
Normalised EPS (SR)	1.17	1.32	0.60 ▼	-0.09 ▼	0.13 ▼
Dividend per share (SR)	1.00	1.00	0.42 ▼	0.00 ▼	0.00 ▼
Dividend yield (%)	9.09	9.09	3.81	0.00	0.00
Normalised PE (x)	9.38	8.35	18.37	-121	84.90
EV/EBITDA (x)	9.23	7.62	11.90	17.20	13.80
EV/invested capital (x)	0.81	0.77	0.81	0.82	0.82
ROIC - WACC (%)	-3.59	-3.68	-5.85	-8.08	-7.11

Use of ▲ ▼ indicates that the line item has changed by at least 5%.
Accounting standard: IFRS
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Weak VLCC market and high bunker fuel costs continue to weigh on stock

VLCC tonnage oversupply continues to put pressure on freight rates in the short term. This, along with weak economic growth in OECD markets and slower-than-expected growth in non-OECD markets, has suppressed oil demand. VLCC owners' problems have been compounded by the fact that freight rates are near multi-year lows and bunker fuel costs have increased more than 30% yoy (according to the Bloomberg 380 Bunker Index). As NSCSA's VLCC fleet mix shifts from 72% spot and 28% charter in 2011 to 100% spot in 2014, we believe earnings will continue to be negatively impacted as the spot arrangement incurs bunker fuel charges, while the charter arrangement does not.

Still partially defended

As of end 2011, we estimate that 60% of the chemical carrier fleet and 18% of the VLCC fleet will operate on time charter. NSCSA's chemical carrier and VLCC time charter contracts were fixed at attractive rates and it is important to note that under time charter contracts, the charterer bears the cost of the bunker fuel. These contracts, more importantly in the chemical carrier segment, provide a partial hedge to NSCSA's total fleet bunker costs and ensure profitability for part of the fleet.

Dividends unlikely, in our view

While NSCSA has historically paid dividends of either SR1 or SR1.50 over the past four years, we believe the company will find it difficult to maintain the trend due to its upcoming capital commitments, its debt maturity schedule and a tough year in the VLCC market, which we expect to continue for at least the next 12 months.

We lower our target price

As a result of a weaker-than-expected VLCC market, we lower our target price from SR16.33ps to SR11.12ps with the largest contributions still coming from VLCC and chemical carrier segments in that order. We also update our replacement costs analysis, which returns a fair value of SR11.74ps, a 6.7% upside from the current price.

Important disclosures can be found in the Disclosures Appendix.
Distributed outside MENA by The Royal Bank of Scotland N.V. and its affiliates under a strategic alliance with Rasmala Investment Bank Ltd.

Analysts

Daniel Abood
United Arab Emirates
+971 4 424 2824
daniel.abood@rasmala.com

Aly Mansour
United Arab Emirates
+971 4 424 2821
aly.mansour@rasmala.com

Dubai International Financial Centre, The Gate Village, Building 10, Level 1, P.O. Box 31145, Dubai, United Arab Emirates

www.rasmala.com

Outlook

We maintain our Hold rating given our expectation of weak VLCC market outlook and high bunker fuel costs. Upcoming capital commitments and the debt maturity schedule lead us to believe it will be difficult for the company to pay dividends in 2012.

VLCC market outlook

Drewry's estimates world tonnage demand by the end of 2011 at 297.7 mdwt vs world tonnage supply of 400.5 mdwt, or yoy demand growth of 4.0% vs tonnage growth of 6.1%. Drewry's estimates world VLCC tonnage demand by end-2011 at 124.3 mdwt vs world VLCC tonnage supply at 176.4 mdwt, or yoy demand growth of 5.9% against supply of 6.7%. The sovereign debt crisis in Europe and sluggish economic growth in the US have led to suppressed OECD oil demand, while slower-than-expected economic growth in India and weakness in Chinese and Saudi domestic demand hampered non-OECD countries. Drewry's expects tanker demand growth to remain subdued until late 2012, while the supply surplus is likely to continue until late 2013, after which a meaningful recovery in freight rates can occur. We forecast VLCC spot rate changes more or less in line with Drewry's VLCC time charter equivalent estimates at -10% in 2012, +10% in 2013, +15% in 2014, +18% in 2015 and +15% in 2016.

Bunker fuel costs

While VLCC freight rates have been hampered by a supply-demand mismatch in the tanker market, bunker fuel costs have increased over 30% since end-2010. While bunker fuel represented 39.1% of total operating expenses in 2010, we forecast it to be close to 47% in 2011, 44% in 2012 and 45% in 2013. The increase can be partly explained by the increase in spot days as a percentage of the total fleet for the VLCC fleet which we estimate has risen from 65% in 2010 to 72% in 2011 and will rise further to 82% in 2012, 91% in 2013 and 100% in 2014. The increase can also be attributed to rising energy costs as bunker fuel follows a similar trend to crude oil.

Upcoming capital commitments and debt repayment schedule lower possibility of dividend

As of 3Q11, NSCSA had cash and cash equivalents of SR463m. As can be seen in Table 1, we forecast the company has upcoming equity capital commitments of SR368m from end-3Q11 to end-2013. In addition to these equity commitments, we forecast a debt maturity schedule in line with the 2010 annual report of SR1.04b for the same period. Given these capital commitments in addition to an unattractive VLCC market forecast in 2012 and 2013, we forecast the company will end 2013 with cash of SR69m. Given these forecasts, we believe NSCSA will find it difficult to pay dividends in line with previous years (2010 SAR 315m, 2009 SAR 315m) in 2012 and 2013 and it may not pay dividends altogether. We also include Table 2 showing the declared dividend as a percentage of operating cash and ending cash in previous years vs our forecasts for the coming five years.

Table 1 : Cash flows 2011-2014F

	3Q11	4Q11F	2012F	2013F	2014F
Operating cash		**132**	**414**	**489**	**693**
Others		-19	-41	129	-20
Investment in ships		-164	-1,288	-873	-51
Investing cash		**-183**	**-1,330**	**-744**	**-72**
Borrowings		153	1,095	709	41
Repayments		-267	-409	-361	-358
Financing cash		**-114**	**686**	**348**	**-317**
Change in cash		**-166**	**-229**	**92**	**304**
Ending cash	**463**	**298**	**69**	**161**	**465**

Source: Company data, Rasmala forecasts

Table 2 : Declared dividends as a percentage of cash

(SRm)	2007A	2008A	2009A	2010A	2011F	2012F	2013F	2014F	2015F
Operating cash	**517**	**1,142**	**432**	**776**	**397**	**414**	**489**	**693**	**972**
Investing cash	-1,094	-2,197	-1,019	405	-1,348	-1,330	-744	-72	-5
Financing cash	1,265	1,262	290	-857	115	686	348	-317	-319
Ending cash	**877**	**1,108**	**786**	**1,123**	**298**	**69**	**161**	**465**	**1,113**
Declared dividend per share	1	1.5	1	1	-	-	-	-	-
Declared dividend	315	473	315	315	-	-	-	-	-
% of operating cash	**61%**	**41%**	**73%**	**41%**	**-**	**-**	**-**	**-**	**-**
% of ending cash	**36%**	**43%**	**40%**	**28%**	**-**	**-**	**-**	**-**	**-**

Source: Company data, Rasmala forecasts

New forecasts

We adjust our forecasts to account for a weaker-than-expected VLCC market, a slightly altered chemical carrier delivery schedule, expansion in the RoRo segment and clarity on upcoming capital commitments.

New main assumptions

VLCCs

- We revise the current operating mix from 18% charter and 82% spot to 100% spot by 2014 in line with the current lives of the company's charter contracts and carry this mix into perpetuity.
- We forecast average revenue per day of US$57,600 in 4Q11 (a qoq increase of 6%), US$51,600 in 2012, US$ 56,300 in 2013, US$64,700 in 2014, US$76,300 in 2015 and US$87,800 in 2016.
- We forecast opex per day (not including depreciation) of US$43,600 in 2011, US$51,800 in 2012, US$58,100 in 2013, US$64,800 in 2014, US$66,800 in 2015 and US$66,900 in 2016.

Chemical Carriers

- We revise the current operating mix of 40% spot and 60% charter to 45% spot and 55% charter in 2013 and carry this into perpetuity.
- We forecast average revenue per day of US$18,200 in 4Q11 (a qoq increase of 0.9%), US$18,500 in 2012, US$19,900 in 2013, US$21,000 in 2014, US$22,100 in 2015 and US$23,200 in 2016.
- We forecast opex per day (not including depreciation) of US$7,300 in 2011, US$7,800 in 2012, US$7,800 in 2013, US$7,900 in 2014, US$8,100 in 2015 and US$8,300 in 2016.

RoRos

- We maintain our 100% spot operating mix for the life of the RoRo fleet, however, we account for the newly won contract with the Saudi Armed Forces in our revenue breakdown. The financial impact began in October 2011 and is expected to have a total value of SR230m over a period of three years. We estimate that 75% of NSCSA's current RoRo fleet will be dedicated to servicing this contract.
- We forecast average revenue per day of US$70,800 in 4Q11 (a qoq increase of 10.2%), US$72,700 in 2012, US$74,500 in 2013, US$79,100 in 2014, US$87,200 in 2015 and US$91,500 in 2016
- We forecast opex per day (not including depreciation) of US$65,700 in 2011, US$69,800 in 2012, US$55,100 in 2013, US$51,400 in 2014, US$56,600 in 2015 and US$56,800 in 2016. The reason for the significant drop in opex from 2012 to 2014 is to account for the addition of the six new RoRo carriers which we assume are 50% more fuel efficient than the current vessels. One of these new carriers is likely to come online every quarter from 4Q12 to 1Q14.

Dry Bulk

- We forecast average revenue per day of US$20,000 in 2012, US$20,700 in 2013, US$21,400 in 2014, US$21,900 in 2015 and US$22,200 in 2016.

Capex

Expansion:

Chemical Carrier Fleet

- We estimate NSCSA has two more chemical carriers to be delivered in December 2012, besides one in March 2012, one in July 2012, one in November 2012 and a specialised chemical carrier in March 2013.
- We estimate NSCSA has remaining chemical carrier payments of SR500m of which SR497m will be financed through debt.

RoRo fleet

- We estimate NSCSA has six more RoRo carriers to be delivered, one every quarter from 4Q12 to 1Q14.
- We estimate NSCSA has remaining RoRo payments of SR1.337b of which SR1.070bn will be financed through debt.

Dry Bulk fleet

- We estimate NSCSA will purchase two five-year old Panamax vessels in 1Q12 and order three new builds in 2Q12, which will be ready for delivery in 4Q13.
- We estimate the five-year old vessels will cost approximately SR101m each and the new builds will cost approximately SR113m each. We estimate NSCSA will spend approximately SR540m on its dry bulk fleet of which SR432m will be financed through debt.

Debt schedule

- We estimate the company has debt repayments of SR270m in 4Q11, SR409m in 2012, SR361m in 2013, SR358 in 2014 and SR319 in 2015 as per the 2010 annual report. After 2015, we forecast equal payments of SR376m a year until a majority of the debt is repaid.

Table 3 : Key actuals and forecasts

(SRm)	2010A	2011F	2012F	2013F	2014F	2015F
Operating revenue	2,049.8	1,944.4	2,092.2	2,326.2	2,848.8	3,232.0
Operating expenses	-1,601.9	-1,797.9	-2,143.6	-2,271.1	-2,598.4	-2,697.2
Gross operating income	447.9	146.5	-51.4	55.1	250.5	534.8
EBITDA	851.2	650.0	504.1	647.3	884.2	1,162.3
Net profit	414.9	188.6	-28.6	40.8	167.3	440.0
EPS	1.32	0.6	-0.09	0.13	0.53	1.4

Source: Company data, Rasmala forecasts

Table 4 : 4Q11 preview

(SRm)	3Q11A	4Q11F
Operating revenue	479.1	520.9
Operating expenses	-462.7	-510.3
Gross operating income	16.4	10.6
EBITDA	136.1	138.3
Net profit	23.4	14.2
EPS	0.07	0.04

Source: Rasmala forecasts

Valuation

Our revised forecast yields a fair value of SR11.12 per share, 1.0% higher than the current price (see Table 5). At SR11.00 per share, the stock trades at 2011F EV/EBITDA of 12.0x and 2011F PE of 18.4x. Our valuation implies 2011F EV/EBITDA of 12.1x and PE of 18.6x.

Table 5 : Base-case SOTP valuation

(SRm)	Value	Per share (SR)	% of asset value	Valuation methodology
VLCCs	3,519	11.17	101%	DCF
Chemical Carriers	2,840	9.02	81%	DCF
RoRos	1,146	3.64	33%	DCF
Al Bahri Company for Dry Bulk	151	0.48	4%	DCF
Corporate expenses	-501	-1.59	-14%	DCF
Petredec	606	1.92	17%	10X multiple on normalised earnings
Investments in financial instruments	76	0.24	2%	Book value
Total EV	**7,838**	**24.88**	**224%**	
Net debt	4,044	12.84	115%	Estimated net debt as of 31/12/2011
Minority interests	292	0.93	8%	Minority interest as of 31/12/2011
Total equity value	**3,501**	**11.12**	**100%**	
Shares outstanding	315			
Equity value per share	**11.12**			
Current price	11.00			
Upside/downside	1.0%			
Recommendation	Hold			

Source: Company data, Rasmala forecasts

Table 6 : Replacement cost valuation

(SRm)	Value	Per share (SR)	% of asset value	Valuation methodology
VLCCs	4,041	12.83	109%	Replacement cost
Chemical carriers	2,998	9.52	81%	Replacement cost
Remaining payments for chemical carriers from end 2011	-387	-1.23	-10%	Replacement cost
RoRos	150	0.48	4%	Replacement cost
Paid for new RoRos as of end 2011	257	0.82	7%	Paid
Petredec	606	1.92	16%	10X multiple on normalised earnings
Investments in financial instruments	76	0.24	2%	Book value
Total EV	**7,741**	**24.57**	**209%**	
Net debt	4,044	12.84	109%	Estimated net debt as of 31/12/2011
Total equity value	**3,697**	**11.74**	**100%**	
Shares Outstanding	315			
Equity value per share	**11.74**			
Current price	11.00			
Upside/downside	6.7%			

Source: Company data, Rasmala forecasts

Income statement

SRm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	1672	2050	1944	2092	2326
Cost of sales	-770.6	-1095	-1189	-1484	-1563
Operating costs	-95.0	-103.8	-105.2	-104.0	-116.3
EBITDA	**806.4**	**851.2**	**650.0**	**504.1**	**647.3**
DDA & Impairment (ex gw)	-360.8	-360.7	-383.0	-415.0	-447.3
EBITA	**445.6**	**490.5**	**267.1**	**89.1**	**200.0**
Goodwill (amort/impaired)	0.00	0.00	0.00	0.00	0.00
EBIT	**445.6**	**490.5**	**267.1**	**89.1**	**200.0**
Net interest	-14.7	-24.6	-32.9	-56.9	-72.0
Associates (pre-tax)	-168.2	-146.4	-225.7	-244.5	-261.2
Other pre-tax items	168.2	150.3	225.7	244.5	261.2
Reported PTP	**430.9**	**469.8**	**234.2**	**32.2**	**128.0**
Taxation	-34.6	-36.4	-21.8	-2.42	-9.60
Minority interests	-27.0	-18.6	-23.8	-58.4	-77.6
Other post-tax items	0.00	-0.00	0.00	0.00	0.00
Reported net profit	**369.3**	**414.9**	**188.6**	**-28.6**	**40.8**
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	806.4	851.2	650.0	504.1	647.3
Normalised PTP	430.9	469.8	234.2	32.2	128.0
Normalised net profit	**369.3**	**414.9**	**188.6**	**-28.6**	**40.8**

Source: Company data, Rasmala forecasts year to Dec

Balance sheet

SRm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	785.7	1123	297.8	68.6	160.8
Other current assets	441.1	455.2	623.3	662.1	688.4
Tangible fixed assets	6731	6408	7604	8273	9327
Intang assets (incl gw)	170.7	40.4	67.1	67.1	67.1
Oth non-curr assets	2210	1940	1729	2036	1343
Total assets	**10339**	**9966**	**10322**	**11107**	**11586**
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	609.8	736.0	913.2	983.1	995.7
Long term debt (3)	4516	3819	4124	4810	5158
Oth non-current liab	35.0	33.3	28.1	28.1	28.1
Total liabilities	**5161**	**4588**	**5065**	**5821**	**6182**
Total equity (incl min)	5178	5378	5256	5286	5405
Total liab & sh equity	**10339**	**9966**	**10322**	**11107**	**11586**
Net debt	3977	3020	4291	5206	5462

Source: Company data, Rasmala forecasts year ended Dec

Cash flow statement

SRm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	806.4	851.2	650.0	504.1	647.3
Change in working capital	21.7	39.8	42.2	58.4	77.6
Net interest (pd) / rec	0.00	0.00	0.00	0.00	0.00
Taxes paid	-90.8	-25.6	-25.2	0.00	0.00
Other oper cash items	-305.4	-89.8	-270.0	-148.2	-236.4
Cash flow from ops (1)	**431.8**	**775.6**	**397.0**	**414.3**	**488.6**
Capex (2)	-1186	-266.3	-1257	-1348	-903.5
Disposals/(acquisitions)	168.1	694.0	-42.5	18.5	159.1
Other investing cash flow	-1.14	-22.5	-47.8	0.00	0.00
Cash flow from invest (3)	**-1019**	**405.2**	**-1348**	**-1330**	**-744.4**
Incr / (decr) in equity	1566	140.0	770.2	1095	709.2
Incr / (decr) in debt	-809.6	-759.8	-324.6	-409.1	-361.2
Ordinary dividend paid	-466.7	-317.3	-310.7	0.00	0.00
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	0.00	80.0	-20.0	0.00	0.00
Cash flow from fin (5)	**289.7**	**-857.1**	**114.9**	**686.0**	**348.1**
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	**-297.5**	**323.7**	**-835.7**	**-229.2**	**92.2**
Equity FCF (1+2+4)	-754.2	509.3	-860.2	-933.7	-414.9

Source: Company data, Rasmala forecasts year to Dec

Standard ratios

Performance	NSCSA FY09A	NSCSA FY10A	NSCSA FY11F	NSCSA FY12F	NSCSA FY13F	China COSCO Holdings FY11F	China COSCO Holdings FY12F	China COSCO Holdings FY13F	MISC FY11F	MISC FY12F	MISC FY13F
Sales growth (%)	-35.6	22.6	-5.14	7.60	11.2	-9.69	9.85	16.2	-9.36	-8.55	-8.43
EBITDA growth (%)	-35.8	5.56	-23.6	-22.4	28.4	n/a	n/a	191.5	-22.1	32.0	18.9
EBIT growth (%)	-51.8	10.1	-45.5	-66.6	124.5	n/a	-75.3	n/a	-42.6	77.2	33.6
Normalised EPS growth (%)	-50.8	12.3	-54.5	6.45	82.1	n/a	-91.1	n/a	-45.2	139.7	41.4
EBITDA margin (%)	48.2	41.5	33.4	24.1	27.8	-2.24	3.77	9.45	18.2	26.2	34.0
EBIT margin (%)	26.7	23.9	13.7	4.26	8.60	-7.67	-1.73	4.23	6.96	13.5	19.7
Net profit margin (%)	22.1	20.2	9.70	-1.37	1.75	-6.87	-0.56	3.59	3.81	9.98	15.4
Return on avg assets (%)	3.26	3.44	0.79	-0.89	-0.06	-2.83	1.23	4.49	2.35	3.90	5.05
Return on avg equity (%)	7.33	8.23	3.75	-0.58	0.82	-13.9	-1.36	9.71	1.94	4.61	6.30
ROIC (%)	5.42	5.32	3.15	0.93	1.89	-7.24	-1.51	3.70	1.85	3.13	4.01
ROIC - WACC (%)	-3.59	-3.68	-5.85	-8.08	-7.11	-18.2	-12.5	-7.27	-7.46	-6.19	-5.31
					year to Dec			year to Dec			year to Dec

Valuation	NSCSA FY09A	NSCSA FY10A	NSCSA FY11F	NSCSA FY12F	NSCSA FY13F	China COSCO Holdings FY11F	China COSCO Holdings FY12F	China COSCO Holdings FY13F	MISC FY11F	MISC FY12F	MISC FY13F
EV/sales (x)	4.45	3.16	3.99	4.14	3.84	0.68	0.70	0.60	3.22	3.57	3.90
EV/EBITDA (x)	9.23	7.62	11.9	17.2	13.8	-30.3	18.5	6.39	17.7	13.6	11.5
EV/EBITDA @ tgt price (x)	9.28	7.66	12.0	17.3	13.8	-31.8	19.3	6.67	18.9	14.6	12.2
EV/EBIT (x)	16.7	13.2	29.0	97.3	44.6	-8.85	-40.3	14.3	46.3	26.5	19.8
EV/invested capital (x)	0.81	0.77	0.81	0.82	0.82	0.66	0.68	0.64	1.09	1.06	1.02
Price/book value (x)	0.69	0.68	0.70	0.70	0.70	0.74	0.75	0.68	1.20	1.17	1.12
Equity FCF yield (%)	-21.8	14.7	-24.8	-26.9	-12.0	-59.2	-33.1	-6.09	-3.42	-0.47	1.71
Normalised PE (x)	9.38	8.35	18.37	-121.3	84.90	-4.89	-54.65	7.34	61.38	25.61	18.11
Norm PE @ tgt price (x)	9.48	8.44	18.6	-122.6	85.8	-5.38	-60.1	8.07	67.2	28.0	19.8
Dividend yield (%)	9.09	9.09	3.81	0.00	0.00	0.00	0.00	0.00	2.27	2.27	2.27
					year to Dec			year to Dec			year to Dec

Per share data	FY09A	FY10A	FY11F	FY12F	FY13F
Tot adj dil sh, ave (m)	315.0	315.0	315.0	315.0	315.0
Reported EPS (SAR)	1.17	1.32	0.60	-0.09	0.13
Normalised EPS (SAR)	1.17	1.32	0.60	-0.09	0.13
Dividend per share (SAR)	1.00	1.00	0.42	0.00	0.00
Equity FCF per share (SAR)	-2.39	1.62	-2.73	-2.96	-1.32
Book value per sh (SAR)	15.8	16.2	15.8	15.7	15.8
					year to Dec

Solvency	FY09A	FY10A	FY11F	FY12F	FY13F
Net debt to equity (%)	76.8	56.1	81.6	98.5	101.1
Net debt to tot ass (%)	38.5	30.3	41.6	46.9	47.1
Net debt to EBITDA	4.93	3.55	6.60	10.3	8.44
Current ratio (x)	2.01	2.14	1.01	0.74	0.85
Operating CF int cov (x)	0.00	0.00	0.00	0.00	0.00
Dividend cover (x)	0.79	1.31	0.61	0.00	0.00
					year to Dec

Priced as follows: 4030.SE - SR11.00; 1919.HK - HK$3.90; MISC.KL - RM6.00
Source: Company data, Rasmala forecasts

Table 7 : Base-case SOTP valuation

(SRm)	Value	Per share (SR)	% of asset value	Valuation methodology
VLCCs	3,519	11.17	101%	DCF
Chemical Carriers	2,840	9.02	81%	DCF
RoRos	1,146	3.64	33%	DCF
Al Bahri Company for Dry Bulk	151	0.48	4%	DCF
Corporate Expenses	-501	-1.59	-14%	DCF
Petredec	606	1.92	17%	10X multiple on normalised earnings
Investments in financial instruments	76	0.24	2%	Book value
Total EV	**7,838**	**24.88**	**224%**	
Net Debt	4,044	12.84	115%	Estimated net debt as of 31/12/2011
Minority Interests	292	0.93	8%	Minority interest as of 31/12/2011
Total Equity Value	**3,501**	**11.12**	**100%**	
Shares Outstanding	315			
Equity Value per Share	**11.12**			
Current Price	11.00			
Upside/Downside	1.0%			
Recommendation	Hold			

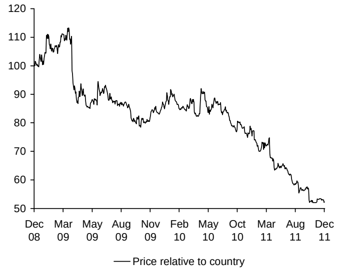
Source: Company data, Rasmala forecasts

Company description | Hold

The National Shipping Company of Saudi Arabia (NSCSA) was established by royal decree in 1979 as the first national carrier in Saudi Arabia. The company is a large shipping conglomerate engaged in the purchasing, chartering and operation of vessels for the transportation of crude oil, liquefied petroleum gas (LPG), petrochemicals and general cargo. The company, along with its affiliates, covers more than 150 ports in the Gulf, the Mediterranean, Europe, North and South America, Asia and Australia.

At present, the company is among the top 10 VLCC owners in the world and owns 17 VLCCs, 13 petrochemicals carriers and four fully owned RoRo vessels. The Public Investment Fund holds 28% of the company's equity, followed by 5% held by Abdullah S.A. Al Rashed. The freefloat of the company as at 3 March 2011 was 67%. NSCSA is listed on the Saudi Stock Exchange.

Price relative to country



Strategic analysis | Average SWOT company score: 4

Strengths | 4

NSCSA's balanced strategy of having time-chartered and spot-chartered vessels ensures a relatively high and stable revenue stream for the company. Moreover, the company is fairly diversified as it serves the crude oil, petrochemicals and liner cargo shipping segments.

Weaknesses | 4

High levels of debt could hinder the company's growth plans.

Opportunities | 4

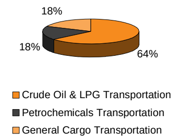
NSCSA's long-standing relationships with large ship-hiring companies should ensure future business in the time-charter market. The venture with ARASCO for dry bulk transportation should add further diversification to its business.

Threats | 4

An oversupply of vessels in the global market could result in idle fleet for NSCSA in the spot market.

Scoring range is 1-5 (high score is good)

Revenue breakdown 2011F



Source: Rasmala forecasts

Market data

Headquarters
Siteen Street, Malaz PO Box 8931, Riyadh 11492, Saudi Arabia

Website
http://www.nscsa.com

Shares in issue
315.0m

Freefloat
72%

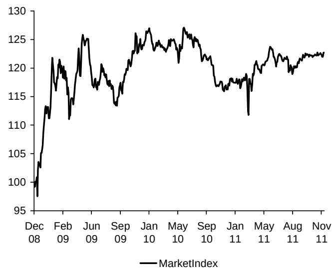
Majority shareholders
Government of Saudi Arabia (28%)

Country view: Saudi Arabia

MENA markets are showing characteristics of a text book case of loss aversion. This is expected given the magnitude of losses investors experienced since 2008, with 2009 lagging emerging markets by a fairly wide margin. Rising oil prices and budget surpluses drove asset prices across the region higher resulting in a real-estate bubble that has negatively impacted speculators and the banking system. Bubbles do pop and recover over time if there is a legal system in place that enables the transfer of assets. The bad news is such a mechanism did not exist. The good news is that with the creation or RERA and the possibility of Strata Law, this could change and facilitate the transfer of properties from speculators to real investors.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to M East & Africa



Competitive position | Average competitive score: 4+

Supplier power | 4+

Low - Shipbuilders construct vessels according to the specifications set by shipping companies and have the right to cancel new building contracts due to delays on the part of shipbuilders.

Barriers to entry | 4+

High - The capital outlay required to enter the industry is very high.

Customer power | 4-

Moderate - On the time charter market, as opposed to the spot market, once a shipping company enters a long-term contract, it is not possible for a customer to change trading terms.

Substitute products | 4+

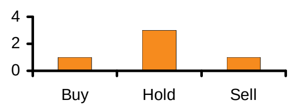
Very Low - In the case of large bulk shipping, where goods and liquids cannot be transported by road or pipeline, shipping is the only cost-effective method of transport on a per-tonne basis.

Rivalry | 3-

High - NSCSA faces high competition as the marine transportation industry is largely fragmented and currently faces excess supply.

Scoring range 1-5 (high score is good)   Plus = getting better   Minus = getting worse

Broker recommendations



Source: Bloomberg

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

NSCSA (RIC: 4030.SE, Rec: Hold, CP: SR11.00, TP: SR11.12): Downside risks to our SOTP-based target price include rising bunker fuel costs, Middle East instability and lower OPEC production. Upside risks include higher shipping rates as a result of key route disruptions and a sooner than expected recovery in global oil demand.

Disclaimer