



SHUAACAPITAL_{PSC}

NSCSA (4030.SE)

Equity Research

Q4 2007 Results Note

February 11st, 2008

Sector Coverage Team

Kareem Z. Murad

+9714 3199 757

kmurad@shuaacapital.com

Rasha Hamdan, CFA, FRM

+9714 4283 525

rhamdan@shuaacapital.com

2007 profitability slightly below expectations: National Shipping Company of Saudi Arabia (NSCSA, 4030.SE, BUY rated) recorded FY 07 net income of SAR 421 mn, 4.7% lower than FY 06 net income of SAR 441 mn, and 7% lower than our expectation for FY 07 profitability of SAR 453 mn.

NSCSA fleet in line with SHUAA estimates: NSCSA took delivery of two chemical tankers in August and November 2007, and VLCC tanker Layla in August 2007, taking the number of operated chemical tankers to 14 and operated VLCCs to 11 besides existing four RoRo vessels.

Impact of chartering rates on VLCCs: High volatility of VLCC chartering rates throughout 2007 reached the highest ever for modern tankers this year. VLCC earnings for a modern tanker during the year 2007 were relatively weak compared to previous years due to lower than average rates. In fact, the rates bottomed in September 2007, reaching USD 19,000 per day. The recovery started in November with rates peaking to a record high of USD 231,000 per day in December 2007. Spot chartering rates dropped to almost USD 80,000 per day.

NSCSA operates VLCC tankers both on spot and time charter basis aiming to maintain a balance between them. It was the company's exposure to spot market that led to lower profitability and margins per VLCC tanker, despite improved gross profits and margins of chemical tankers and RoRo vessels.

Decrease in operating profitability: The overall operating profit and gross profit margin fell by 5.26% and almost 300 bps in 2007, to reach SAR 450 mn and 27% respectively. The decrease was led by a substantial decrease in operating profits of 21% (SAR 266mn) and drop of 1,162 bps in gross margins (36%) of VLCCs (the major constituent of the company's revenues, constituting almost 44%), partly explained by increased cost per vessel, which, we believe, will be reflected on the chartering rates going forward.

We note that the gross profit margin on all business lines decreased in Q4 07 as compared to Q3 07. The chemical tankers recorded negative operating profits in Q4 07 due to one off provisions incurred by the line, although no further details on this were available at this time.

Net profits: The net profits decreased by 4.7% to SAR 421 mn and operating profit decreased by 8.3% to SAR 450 mn. The cushioned decrease in NSCSA's net profits was a result of significant increase in other revenues reflecting gains on sale of its chemical tanker, "Aqaba bin Nafeh," for SAR 45 mn. The tanker belongs to National Chemical Carrier (NCC), an 80% owned subsidiary of NSCSA.

Outlook: For now, we have no reason to revise our estimates. We had anticipated a drop in average chartering rates during 2007, and lower rates in 2008 and 2009. The rates are expected to start picking up in 2010, with enforcement of the IMO regulation for hulling specifications and given that the fleet deliveries are almost in line with the delivery schedules in our model.

Current stock price (SAR)	23.5
52-week range (SAR)	15.75 – 29.00
Number of shares ('000)	315,000
Free Float	71%
Market Cap (SAR '000)	7,402,500
Market Cap (USD '000)	1,974,263
Div. Yld 2006	3.17%

* Price as at close of 30th January 2008

SAR '000	Q4 2006	Q3 2007	Q4 2007	FY 06	FY 07
VLCC - Revenues	166,475	179,354	176,182	708,977	740,527
Chemical tanker - Revenues	101,915	117,777	94,355	449,053	455,368
Ro Ro - Revenues	103,247	133,888	128,197	493,251	487,606
Total operating revenues	371,637	431,019	398,734	1,651,281	1,683,501
VLCC - Gross profit	71,928	56,282	42,270	336,808	265,790
Chemical tanker - Gross profit	21,209	19,209	(2,183)	71,279	83,578
Ro Ro - Gross profit	20,956	29,979	24,963	82,188	100,401
Gross profit	114,093	105,470	65,050	490,275	449,769
Investment Income	7,278	17,232	37,749	90,815	81,210
Other Income	(14,843)	35,589	14,613	30,050	72,177
Bunker Subsidy	15,950	14,335	26,478	48,158	56,640
Net profit	64,583	112,571	82,955	441,496	420,890
Fixed Assets	3,650,744	4,528,322	4,637,922	3,650,744	4,637,922

This document has been issued by SHUAA Capital for informational purposes only. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment or subscribe to any investment management or advisory service. This document is not intended as investment advice as to the value of any securities or as to the advisability of investing in, purchasing, or selling any security. SHUAA Capital has based this document on information obtained from sources it believes to be reliable. It makes no guarantee, representation or warranty as to its accuracy or completeness and accepts no responsibility or liability in respect thereof or for any reliance placed by any person on such information. All opinions expressed herein are subject to change without notice. This document may not be reproduced or circulated without the prior written consent of SHUAA Capital psc.