

QNBFS Alert – GWCS 2Q2013 Earnings Exceed Expectations

- **2Q2013 earnings beat estimates.** GWCS reported net income to shareholders of QR31.43mn vs. our estimate of QR28.36mn. The primary reason for the growth was a 9.7% QoQ decline in direct costs, with gross margins expanding to 40.2% vs. 32.7% in 1Q2013. The increase in margins is attributable to higher LVQ revenue (Phase 3 came on-line in 2Q2013), impact of some higher margin contracts along with some cost reallocations.
- **Regional expansions:** The management is working on expansion plans in Africa (Nigeria) and Saudi Arabia. However, the plans will take a couple of years to materialize and we have not incorporated these expansions in our model.
- **Market leader in Qatar.** GWCS is the market leader and the only recognized player in the Qatari logistics market. It benefits from the Qatar growth story and has embarked on aggressive debt-financed expansions that will more than double its bottom-line over the next four years.
- **We maintain our estimates for now with a price target of QR40.53.** We maintain our net profit estimate of QR105mn for 2013. We expect GWCS to have a payout ratio in the range of 45% to 55% for the next three years complemented by some stock dividends (10% to 20%) to preserve capital for expansions.
- **GWCS to remain at a premium to peers.** The company trades at a premium to its regional and global peers. On a YTD basis, the stock is up 25.4% (total return) vs. the QE All Share Transportation Index, which is also up 32.7%.

Recommendations

Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price

OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

Saugata Sarkar
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Abdullah Amin, CFA
Senior Research Analyst
+974 4476 6569
abdullah.amin@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
Shahan.keushgerian@qnbfs.com.qa

DISCLAIMER: This publication has been prepared by QNB Financial Services SPC ("QNBFS") a wholly-owned subsidiary of Qatar National Bank ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNBFS.