

Gulf Warehousing Company (GWCS)

Recommendation	OUTPERFORM	Risk Rating	R-4
Share Price	QR41.55	Current Target Price	QR51.00
Implied Upside	22.7%		

In-Line 2Q2018; Maintain Estimates and Outperform

GWCS posted strong but in-line 2Q2018 results. Overall logistics segment performance was slightly weaker-than-expected but this was more than offset by persistent strength in the freight forwarding business. Our FY2018e estimates of revenue of QR1.2bn and net income of QR230mn (EPS of QR3.93) are achievable based on 1H2018's run rate and we believe modest upside to our forecasts is possible. We remain bullish on GWCS and retain our price target of QR51/Outperform rating. GWCS has withstood the blockade well with its freight forwarding segment showing significant growth; the company's logistics business also remains robust driven by contract logistics and increasing occupancy in Bu Sulba. GWCS stock is down 13%, on a total return basis, since the beginning of the blockade vs. 2%/1% declines in MSCI Qatar/QSE and we continue to think this underperformance is unwarranted. Growth post Bu Sulba (~100% occupancy later in 2018) will decline, but as we had flagged previously, GWCS should start generating substantial FCF with FCF yield increasing from 1.8% in 2017 to 13.5% in 2018, reaching 19.3% in 2023. Dividend yield of 4.3% for 2018 should grow to 6.3% by 2023. With major capex already done, there could be upside to dividends medium-term.

Highlights

- GWCS' bottom-line rises 7.7% YoY/4.0% QoQ in 2Q2018, in-line with our estimate** – Profits of QR58.96mn in 2Q2018 was in-line with our forecast of QR56.76mn (+3.9% divergence).
- Overall revenue increased 33.7% YoY to QR310.41mn in 2Q2018 but was flattish relative to our estimate of QR312.27mn.** However, on a QoQ basis, revenue declined 0.4%. By segment, both **logistics (59% of revenue)** and **freight forwarding (41%** including International Moving and Relocation Services [IMRS], which GWCS has reclassified from logistics to freight forwarding) grew their top-lines YoY by 18.8% and 63.0%, respectively. On a QoQ basis, logistics declined slightly by 1.4%, while freight forwarding grew by 1.1%.
- Reported gross margins contracted to 33.2% in 2Q2018 vs. 36.8% in 2Q2017 but increased relative to 32.0% in 1Q2018.** 1H2018 GMS fell to 32.6% vs. 36.2% in 1H2017, which is a result of the increased mix of freight forwarding (running at 41% of total revenue in 1H2018 vs. 35% in 1H2017). Considering **net margins**, we note logistics NMs declined to 25.2% in 1H2018 vs. 27.5% in 1H2017, while freight forwarding NMs declined to 4.9% from 7.0% over the same period. Besides transport services and IMRS, all other segments posted lower YoY net margins indicative of some pricing/costs pressures.
- We maintain our estimates:** Our 2018e estimates (revenue of QR1.2bn; profits of QR230mn) are achievable based on 1H2018's run rate; modest upside to our forecasts is possible.

Catalysts

- Newsflow on new projects:** (1) The Al Asmakh logistics park management agreement could add to LT revenue; moreover, Ras Abu Fontas could add 8k SQM to warehouse space by 3Q2019. (2) Corporate restructurings could create boost outsourced logistics solutions. (3) 4PL remains a growth area. (4) International/regional expansion could diversify operations.

Recommendation, Valuation and Risks

- Recommendation and valuation:** We maintain GWCS as an Outperform with a price target of QR51. Stock trades at P/E of 10.6x and 9.8x for 2018 & 2019, respectively.
- Risks:** include low occupancy in Bu Sulba and customer retention challenges in LVQ/Bu Sulba. Top-line growth after 2018 is potentially capped given the upcoming mega logistics project (only open to Qatari individuals/100%-Qatari owned companies) in south Qatar.

Key Financial Data and Estimates

	FY2017	FY2018e	FY2019e	FY2020e
Revenue (QR mn)	967	1,200	1,270	1,316
Growth	14%	24%	6%	4%
EBITDA (QR mn)	373	443	464	475
Growth	16%	19%	5%	2%
Net Income (QR mn)	215	230	250	269
EPS (QR)	3.68	3.93	4.26	4.59
Growth	5%	7%	8%	8%
P/E (x)	11.3x	10.6x	9.8x	9.0x
DPS (QR)	1.70	1.80	2.00	2.10
Dividend Yield	4.1%	4.3%	4.8%	5.1%
ROE	13.7%	13.6%	13.6%	13.7%

Source: Company data, QNBFS estimates; Note: All per share data based on current number of shares

Key Data

Bloomberg Ticker	GWCS QD
ADR/GDR Ticker	N/A
ISIN	QA000A0KD6H9
Sector*	Transportation
52wk High/52wk Low (QR)	51.80/36.66
3-m Average Volume ('000)	19.8
Mkt. Cap. (\$ bn/QR bn)	0.7/2.4
EV (\$ bn/QR bn)	1.1/3.8
Shares Outstanding (mn)	58.6
FO Limit* (%)	49.0
Current FO* (%)	26.8
1-Year Total Return (%)	(12.6)
Fiscal Year End	Dec. 31

Source: Bloomberg (as of July 22, 2018), *Qatar Exchange (as of July 19, 2018); Note: FO is foreign ownership

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Valuation Metrics

	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e
Valuation								
EV/EBITDA	11.8x	10.4x	8.2x	7.5x	6.7x	5.8x	5.1x	4.4x
P/E	11.8x	11.3x	10.6x	9.8x	9.0x	8.2x	7.7x	7.3x
P/CF	5.4x	7.3x	5.4x	6.1x	5.7x	5.4x	4.9x	4.7x
P/BV	1.6x	1.5x	1.4x	1.3x	1.2x	1.1x	1.0x	0.9x
Dividend Yield	3.9%	4.1%	4.3%	4.8%	5.1%	5.5%	5.9%	6.3%
FCF Yield	-20.7%	1.8%	13.5%	11.3%	15.7%	16.6%	18.3%	19.3%

Source: Bloomberg, QNBFS estimates

Ratio Analysis

	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e
Growth (%)								
Revenue	7.8%	13.8%	24.1%	5.8%	3.7%	6.8%	2.9%	2.1%
Cash Gross Profit	8.6%	15.4%	15.8%	4.4%	2.5%	4.8%	2.0%	1.4%
EBITDA	11.5%	15.6%	18.7%	4.7%	2.4%	5.2%	1.8%	1.1%
EBIT	11.1%	13.6%	13.2%	4.7%	1.8%	5.0%	1.5%	0.6%
Net Profit	11.1%	4.8%	6.9%	8.4%	7.8%	10.8%	6.4%	5.2%
Cash Flow Per Share	1033.7%	-25.6%	34.6%	-12.0%	8.2%	4.9%	9.4%	4.9%
Free Cash Flow Per Share	nmf	nmf	643.8%	-16.4%	39.2%	5.5%	10.5%	5.4%

Profitability (%)

Gross Margin	46.9%	47.5%	44.3%	43.7%	43.2%	42.5%	42.1%	41.8%
EBITDA Margin	38.0%	38.6%	36.9%	36.6%	36.1%	35.6%	35.2%	34.8%
EBIT Margin	25.4%	25.4%	23.2%	22.9%	22.5%	22.1%	21.8%	21.5%
Net Margin	24.2%	22.3%	19.2%	19.7%	20.5%	21.2%	21.9%	22.6%
RoAE	14.0%	13.7%	13.6%	13.6%	13.7%	14.0%	13.8%	13.5%
RoAA	6.1%	5.7%	6.2%	6.9%	7.7%	8.8%	9.6%	10.4%
BEP	6.4%	6.5%	7.5%	8.0%	8.5%	9.2%	9.6%	9.9%
RoAIC	6.0%	7.3%	9.1%	9.7%	10.8%	11.9%	12.7%	13.4%
RoACE	7.0%	7.2%	8.2%	8.9%	9.4%	10.3%	10.8%	11.2%

Liquidity

Current Ratio	2.0x	1.5x	1.4x	1.3x	1.3x	1.4x	1.5x	2.1x
Quick Ratio	2.0x	1.5x	1.4x	1.3x	1.3x	1.4x	1.4x	2.1x
Cash Ratio	0.9x	0.6x	0.6x	0.4x	0.4x	0.5x	0.5x	0.8x

Debt Ratios

Debt-to-Equity	1.2x	1.1x	0.9x	0.7x	0.5x	0.3x	0.2x	0.1x
Long-Term Debt-to-Equity	1.1x	0.9x	0.7x	0.5x	0.4x	0.2x	0.1x	0.0x
EBITDA Interest Coverage	8.4x	6.9x	5.5x	6.8x	8.6x	11.8x	17.3x	31.2x
Net Debt-to-EBITDA	4.3x	3.8x	2.7x	2.2x	1.6x	1.0x	0.4x	-0.3x
Debt-to-Capital	0.6x	0.5x	0.5x	0.4x	0.3x	0.3x	0.2x	0.1x

Source: Company data, QNBFS estimates

Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e	FY2021e	FY2022e
Revenue	967	1,200	1,270	1,316	1,406	1,447
<i>YoY Growth</i>	14%	24%	6%	4%	7%	3%
Direct Costs	(507)	(668)	(714)	(747)	(809)	(838)
Gross Profit	459	532	555	569	597	609
<i>Gross Margin</i>	48%	44%	44%	43%	42%	42%
General and Administrative Expenses	(86)	(89)	(91)	(94)	(97)	(100)
EBITDA	373	443	464	475	500	509
<i>YoY Growth</i>	16%	19%	5%	2%	5%	2%
<i>EBITDA Margin</i>	39%	37%	37%	36%	36%	35%
Depreciation and Amortization	(128)	(166)	(173)	(179)	(189)	(194)
EBIT	246	278	291	296	311	316
<i>YoY Growth</i>	14%	13%	5%	2%	5%	1%
<i>EBIT Margin</i>	25%	23%	23%	23%	22%	22%
Net Finance Costs and Other Income	(30)	(48)	(41)	(27)	(13)	2
Net Income to Equity	215	230	250	269	298	317
<i>YoY Growth</i>	5%	7%	8%	8%	11%	6%
<i>Net Margin</i>	22%	19%	20%	20%	21%	22%
EPS (QR)	3.68	3.93	4.26	4.59	5.09	5.41
DPS (QR)	1.70	1.80	2.00	2.10	2.30	2.45
<i>Payout Ratio</i>	46%	46%	47%	46%	45%	45%

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e	FY2021e	FY2022e
Non-Current Assets						
PP&E and Projects in Progress	2,729	2,694	2,651	2,527	2,394	2,255
Investment Properties	37	38	38	38	39	39
Leasehold Property & Associates	-	-	-	-	-	-
Intangible Assets	119	112	104	97	90	82
Available-for-Sale Investments	-	-	-	-	-	-
Total Non-Current Assets	2,886	2,843	2,793	2,663	2,522	2,376
Current Assets						
Inventories	11	13	14	15	16	16
Trade and Other Receivables	525	460	487	503	538	553
Bank Balances and Cash	352	365	264	259	270	310
Total Current Assets	888	839	765	777	823	880
Total Assets	3,774	3,682	3,559	3,440	3,345	3,257
Equity & Liabilities						
Total Shareholders' Equity	1,636	1,761	1,898	2,044	2,211	2,386
Non-Controlling interests	(4)	(4)	(4)	(4)	(4)	(4)
Non-Current Liabilities						
Loans and Borrowings	1,525	1,301	1,031	761	492	222
Employee Benefits	31	35	40	44	48	53
Total Non-Current Liabilities	1,556	1,337	1,071	806	540	275
Current Liabilities						
Trade Payables	53	66	68	69	71	71
Loans and Borrowings	261	270	270	270	270	270
Accruals, Provisions & Other Payables	203	253	254	255	256	259
Retention Payable	68	-	-	-	-	-
Total Current Liabilities	585	588	593	594	597	600
Total Liabilities	2,142	1,925	1,664	1,400	1,137	874
Total Equity & Liabilities	3,774	3,682	3,559	3,440	3,345	3,257

Source: Company data, QNBFS estimates

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

Contacts

Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

Zaid al-Nafoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafoosi@qnbfs.com.qa

QNB Financial Services Co. W.L.L.

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services Co. W.L.L. ("QNBFS") a wholly-owned subsidiary of Qatar National Bank (Q.P.S.C.). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange. Qatar National Bank (Q.P.S.C.) 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. QNBFS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment 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. 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. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNBFS Fundamental Research as a result of depending solely on the historical technical data (price and volume). 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. This report may not be reproduced in whole or in part without permission from QNBFS.

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