

## GWCS Alert – In-Line 2Q2020 Earnings; Maintain Market Perform

- **GWCS' net profit declines 6.0% YoY but increases 17.4% QoQ in 2Q2020, in-line with our estimate** – Gulf Warehousing Co.'s (GWCS) net profit came in at QR59.2mn in 2Q2020, in line with our estimate of QR57.0mn (variation of 3.9%). In 2Q2020, the company benefited from QR3.3mn in COVID-19-related rental concessions from two landlords in Ras Laffan and Mesaieed Industrial City for six months; excluding this 2Q2020 net income would have come in 1.9% below our model. Top-line came in at QR302.3mn in 1Q2020, which represents increases of 2.2% YoY and 2.1% QoQ (6.1% lower than our estimate of QR322.0mn). Relative to our model, while revenue was lower-than-expected, the in-line earnings was on account of stronger-than-expected margins; gross margin came in 34.0% vs. 38.0% in 2Q2019 and 33.3% in 1Q2020 and our estimate of 32.5%.
- **The results are consistent with our expectations:** As we had stated in our [preview](#), we had anticipated sequential earnings to benefit from growth in logistics services given that lockdown/travel restrictions have created additional demand for grocery/food-related logistics. Freight forwarding, contract logistics and warehouse rentals remained robust in 2Q2020 and GWCS also benefited from some costs reductions/concessions. Going forward, the company stated in its quarterly report that 6 land lease rental payment agreements in Ras Laffan were lowered effective January 2020, which would amount to a QR75.3mn reduction in lease liability and right-of use assets.
- **Longer-term, we retain our bullish investment thesis on GWCS but near-term challenges remain.** GWCS has withstood the blockade well with its freight forwarding segment showing significant growth (up 39% in 2019 from 2017); GWCS' logistics business also remains robust driven by contract logistics and increasing occupancy in Bu Sulba. Growth post Bu Sulba (more than 95% occupancy) could decline, but as we had flagged previously, GWCS has started generating substantial FCF and management remains on the hunt for expansion avenues. The recent Al Wukair Logistics Park contract serves as an example of such a growth opportunity. We do note 2020 could be a challenging year given the dual headwinds of oil price weakness and economic softness due to the coronavirus but we remain optimistic longer-term. **We stay Market Perform on GWCS with a QR5.10 PT.**

### 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

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