

# GWCS Alert – Beats 4Q2019 Earnings Estimate; In-Line DPS; Maintain Market Perform

- **GWCS posts better-than-expected 4Q2019 earnings and in-line QR0.20 DPS for 2019** – Gulf Warehousing Co. posted QR67.6mn in 4Q2019 earnings (+10.6% YoY, +13.8% QoQ), beating our estimate of QR63.2mn (variation of +7.0%). While GMs came under pressure primarily driven by higher contract logistics costs despite lower rates, other items such as reversal of credit losses (for accounts receivables) of QR8.4mn, lower finance costs, etc., helped in the net income beat for the quarter. As expected, GWCS increased its proposed DPS by 5.3% from QR0.19 in 2018 to QR0.20 in 2019. Net-net, 4Q2019 results, on an operating basis were somewhat softer-than-expected but our overall thesis on the company remains unchanged. *We provide detailed quarterly and annual comparisons on page 2.*
- **GWCS disclosed that its 2020 budgeted net income is QR260.4mn or up 4% YoY.** We had been expecting net income of QR232.0mn for 2020, which implied around 5% earnings decline. We adopt a wait-and-see attitude and will change our model post 1Q2020 results.
- **We maintain our Market Perform rating on GWCS with a QR5.10 price target.** Longer term, we retain our bullish investment thesis on GWCS – the company 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 90% 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.

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Income Statement (QR 000)	4Q2018	3Q2019	4Q2019	4Q2019e	A vs. E	YoY	QoQ	2018	2019	2019e	A vs. E	YoY
<b>Revenue</b>	<b>301,891</b>	<b>315,600</b>	<b>306,651</b>	<b>316,860</b>	<b>-3.2%</b>	<b>1.6%</b>	<b>-2.8%</b>	<b>1,232,204</b>	<b>1,221,836</b>	<b>1,232,046</b>	<b>-0.8%</b>	<b>-0.8%</b>
YoY	5.5%	4.8%	1.6%	5.0%				25.6%	-0.8%	0.0%		
QoQ	0.3%	6.7%	-2.8%	0.4%								
<b>Logistics</b>	<b>193,654</b>	<b>200,382</b>	<b>186,382</b>	<b>199,635</b>	<b>-6.6%</b>	<b>-3.8%</b>	<b>-7.0%</b>	<b>767,315</b>	<b>776,457</b>	<b>789,710</b>	<b>-1.7%</b>	<b>1.2%</b>
Warehouse Management Services	161,569	168,070	146,530	165,435	-11.4%	-9.3%	-12.8%	648,018	638,524	657,429	-2.9%	-1.5%
Transport Services	10,419	9,525	11,618	10,000	16.2%	11.5%	22.0%	33,561	36,375	34,757	4.7%	8.4%
Relocation Services (IMRS)	6,782	6,631	11,986	8,000	49.8%	76.7%	80.8%	27,472	39,105	35,119	11.3%	42.3%
Records Management Services	14,884	16,157	16,249	16,200	0.3%	9.2%	0.6%	58,265	62,454	62,405	0.1%	7.2%
<b>Freight Forwarding</b>	<b>106,428</b>	<b>113,124</b>	<b>118,174</b>	<b>115,131</b>	<b>2.6%</b>	<b>11.0%</b>	<b>4.5%</b>	<b>453,599</b>	<b>437,001</b>	<b>433,958</b>	<b>0.7%</b>	<b>-3.7%</b>
Freight Forwarding Services	97,203	104,854	110,033	105,879	3.9%	13.2%	4.9%	425,751	404,360	400,206	1.0%	-5.0%
Courier Services	9,225	8,270	8,141	9,251	-12.0%	-11.7%	-1.6%	27,848	32,642	33,752	-3.3%	17.2%
<b>Rental Income from Investment Property</b>	<b>1,809</b>	<b>2,094</b>	<b>2,094</b>	<b>2,094</b>	<b>0.0%</b>	<b>15.8%</b>	<b>0.0%</b>	<b>11,290</b>	<b>8,378</b>	<b>8,378</b>	<b>0.0%</b>	<b>-25.8%</b>
Others												
Direct Costs	(196,280)	(203,615)	(216,134)	(203,424)	6.2%	10.1%	6.1%	(811,185)	(797,920)	(785,210)	1.6%	-1.6%
<b>Gross Profit</b>	<b>105,611</b>	<b>111,985</b>	<b>90,517</b>	<b>113,436</b>	<b>-20.2%</b>	<b>-14.3%</b>	<b>-19.2%</b>	<b>421,019</b>	<b>423,917</b>	<b>446,835</b>	<b>-5.1%</b>	<b>0.7%</b>
Other Income	1,755	97	16,876	2,809	500.7%	861.9%	17381.5%	2,905	18,192	4,125	341.1%	526.3%
General and Administration Expenses	(30,920)	(31,479)	(29,092)	(31,923)	-8.9%	-5.9%	-7.6%	(112,979)	(117,598)	(120,429)	-2.4%	4.1%
Net Impairment Reversal on Trade Receivables	5,900		8,400					5,900	8,400	-		42.4%
<b>OPERATING PROFIT</b>	<b>82,345</b>	<b>80,603</b>	<b>86,702</b>	<b>84,322</b>	<b>2.8%</b>	<b>5.3%</b>	<b>7.6%</b>	<b>316,845</b>	<b>332,911</b>	<b>330,531</b>	<b>0.7%</b>	<b>5.1%</b>
Finance Income	2,282	1,692	1,716	1,696	1.2%	-24.8%	1.4%	8,034	6,804	6,784	0.3%	-15.3%
Finance Costs	(23,399)	(22,905)	(20,835)	(22,754)	-8.4%	-11.0%	-9.0%	(97,195)	(90,203)	(92,122)	-2.1%	-7.2%
<b>EBT</b>	<b>61,228</b>	<b>59,390</b>	<b>67,583</b>	<b>63,265</b>	<b>6.8%</b>	<b>10.4%</b>	<b>13.8%</b>	<b>227,684</b>	<b>249,511</b>	<b>245,192</b>	<b>1.8%</b>	<b>9.6%</b>
Taxes	(110)			(90)	-100.0%	-100.0%		(110)	-	(90)	-100.0%	-100.0%
<b>Profit For the period</b>	<b>61,117</b>	<b>59,390</b>	<b>67,583</b>	<b>63,175</b>	<b>7.0%</b>	<b>10.6%</b>	<b>13.8%</b>	<b>227,573</b>	<b>249,511</b>	<b>245,102</b>	<b>1.8%</b>	<b>9.6%</b>
Attributable to:												
<b>Net Income to Equity</b>	<b>61,117</b>	<b>59,390</b>	<b>67,583</b>	<b>63,175</b>	<b>7.0%</b>	<b>10.6%</b>	<b>13.8%</b>	<b>226,818</b>	<b>249,511</b>	<b>245,102</b>	<b>1.8%</b>	<b>10.0%</b>
NM	20.2%	18.8%	22.0%	19.9%				18.4%	20.4%	19.9%		
Non-Controlling Interest	-							755	-			
<b>Net Income</b>	<b>61,117</b>	<b>59,390</b>	<b>67,583</b>	<b>63,175</b>	<b>7.0%</b>	<b>10.6%</b>	<b>13.8%</b>	<b>227,573</b>	<b>249,511</b>	<b>245,102</b>	<b>1.8%</b>	<b>9.6%</b>
<b>EPS</b>	<b>0.10</b>	<b>0.10</b>	<b>0.12</b>	<b>0.11</b>	<b>7.0%</b>	<b>10.6%</b>	<b>13.8%</b>	<b>0.39</b>	<b>0.43</b>	<b>0.42</b>	<b>1.8%</b>	<b>10.0%</b>
<b>DPS</b>								<b>0.19</b>	<b>0.20</b>	<b>0.20</b>		
<b>EBITDA</b>	<b>119,445</b>	<b>120,786</b>	<b>104,329</b>	<b>123,710</b>				<b>479,339</b>	<b>468,905</b>	<b>486,192</b>		
GM	35.0%	35.5%	29.5%	35.8%				34.2%	34.7%	36.3%		
G&A	10.2%	10.0%	9.5%	10.1%				9.2%	9.6%	9.8%		
EBIT	27.3%	25.5%	28.3%	26.6%				25.7%	27.2%	26.8%		
EBITDA	39.6%	38.3%	34.0%	39.0%				38.9%	38.4%	39.5%		

### 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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