

Gulf Warehousing Company (GWCS)

Recommendation	OUTPERFORM	Risk Rating	R-4
Share Price	QR40.64	Current Target Price	QR51.00
Implied Upside	25.5%		

3Q2018 Results Pose No Surprises; Maintain Estimates/TP

3Q2018 results come-line with our expectations; no changes to model or view. As we had expected in our [preview](#) of GWCS' 3Q2018 results, we saw robust yearly growth in revenue/earnings but seasonality impacted QoQ comparisons. We continue to believe our FY2018e estimates of revenue of QR1.2bn and net income of QR230mn (EPS of QR3.93) are achievable based on GWCS' 9M2018 run rate. Moreover, we remain of the view that modest upside to our forecasts is possible. We retain our bullish stance on GWCS and maintain 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 4%, on a total return basis, YTD vs. 26%/27% increases 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 1.9% in 2017 to 13.8% in 2018, reaching 19.7% in 2023. Dividend yield of 4.4% for 2018 should grow to 6.4% by 2023. With major capex already done, there could be upside to dividends medium-term.

Highlights

- **GWCS posts 10.6% YoY increase but 2.5% QoQ decline in net profit in 3Q2018 to QR57.5mn, which was right in-line with our forecast.** Our 3Q2018 earnings forecast was also QR57.5mn.
- **Total revenue increased 24.4% YoY to QR298.8mn in 3Q2018 vs. our estimate of QR302.5mn (-1.2% divergence).** As expected, on a QoQ basis, revenue declined 3.8%. By segment, both logistics (62% of revenue) and freight forwarding (38% including International Moving and Relocation Services [IMRS]), which GWCS has reclassified from logistics to freight forwarding) grew their top-lines YoY by 13.6% and 47.2%, respectively. On a QoQ basis, logistics increased slightly by 1.1%, while freight forwarding declined by 10.7%.
- **Reported gross margins contracted to 33.8% in 3Q2018 vs. 36.6% in 3Q2017 but increased relative to 33.2% in 2Q2018.** 9M2018 GMS fell to 33.0% vs. 36.3% in 9M2017, which is a result of the increased mix of freight forwarding (running at 40% of total revenue in 9M2018 vs. 34% in 9M2017). Considering **net margins**, we note logistics NMs declined to 25.1% in 9M2018 vs. 26.4% in 9M2017, while freight forwarding NMs declined to 5.4% from 7.3% 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 9M2018'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 9.5x and 8.8x for 2019 & 2020, 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
<i>Growth</i>	<i>14%</i>	<i>24%</i>	<i>6%</i>	<i>4%</i>
EBITDA (QR mn)	373	443	464	475
<i>Growth</i>	<i>16%</i>	<i>19%</i>	<i>5%</i>	<i>2%</i>
Net Income (QR mn)	215	230	250	269
EPS (QR)	3.68	3.93	4.26	4.59
<i>Growth</i>	<i>5%</i>	<i>7%</i>	<i>8%</i>	<i>8%</i>
P/E (x)	11.1x	10.3x	9.5x	8.8x
DPS (QR)	1.70	1.80	2.00	2.10
<i>Dividend Yield</i>	<i>4.2%</i>	<i>4.4%</i>	<i>4.9%</i>	<i>5.2%</i>
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)	18.6
Mkt. Cap. (\$ bn/QR bn)	0.7/2.4
EV (\$ bn/QR bn)	1.0/3.7
Shares Outstanding (mn)	58.6
FO Limit* (%)	49.0
Current FO* (%)	26.7
1-Year Total Return (%)	(0.1)
Fiscal Year End	Dec. 31

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

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Valuation Metrics

	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e
Valuation								
EV/EBITDA	11.7x	10.2x	8.1x	7.4x	6.6x	5.7x	5.0x	4.3x
P/E	11.6x	11.1x	10.3x	9.5x	8.8x	8.0x	7.5x	7.1x
P/CF	5.3x	7.1x	5.3x	6.0x	5.5x	5.3x	4.8x	4.6x
P/BV	1.6x	1.5x	1.4x	1.3x	1.2x	1.1x	1.0x	0.9x
Dividend Yield	3.9%	4.2%	4.4%	4.9%	5.2%	5.7%	6.0%	6.4%
FCF Yield	-21.2%	1.9%	13.8%	11.5%	16.0%	16.9%	18.7%	19.7%

Source: Bloomberg, QNBFS estimates

Ratio Analysis

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

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