

Gulf Warehousing Company (GWCS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR3.266	Target Price	QR4.025
Implied Upside	23.2%		

In-Line 2Q2024 On Significant Other Income Beat; Stay Accumulate

GWCS reported in-line earnings for 2Q2024 despite moderately lower-than-anticipated top-line (weakness in Bu Sulba) and softer-than-expected margins as a one-off boost in other income significantly boosted net income. Given 1H2024 earnings of QR100.4mn, our 2024 earnings estimate of QR221.5mn implies a 20.7% growth in 2H2024 to QR121.2mn, which could be aggressive. GWCS should enjoy growth going forward given new projects and an expected easing of its finance charges burden in 2H2024 as management has negotiated a reduction in its cost of funding by almost 75 basis points. However, the stock continues to suffer from a lack of liquidity and a below-market dividend yield of 3.4%, which we feel needs to be addressed. We maintain our Accumulate rating.

Highlights

- 2Q2024 earnings comes in-line with our estimate** – Quarterly net profit came in at QR49.5mn (-7.2% YoY, -2.8% QoQ), which was in-line/modestly ahead of our estimate of QR48.7mn (1.6% differential).
- Top-line of QR372.6mn for 2Q2024 fell 0.2% YoY and 0.8% QoQ given soft performance of logistics hubs even as freight forwarding continued to accelerate vs. 3Q2023's lows.** Overall revenue was moderately below our model (-2.1% divergence) of QR380.4mn given weak logistics performance.
- Logistics revenue of QR237.2mn (-0.9% YoY, -3.6% QoQ; 64% of total revenue) remained weak and was -6.1% below our estimate of QR252.5mn.** Warehouse management services declined 1.5% YoY and 2.4% QoQ to QR195.5mn (5.1% below our estimate of QR205.9mn). Logistics hubs performance remained soft with Bu Sulba (which is targeted at SMEs) facing pricing/occupancy challenges, especially on smaller units (Bu Sulba had 75 units/44,000 m² vacant). On a positive note, Al Wukair phase 2 occupancy is around 98%. Overall logistics hubs' occupancy level dipped to 81% in 2Q2024 vs. 86% in 2Q2023 and 83% in 1Q2024. In contract logistics, throughput CBM increased 15.5% YoY/5.4% QoQ to 438,767.
- Freight forwarding top-line of QR133.0mn (2.0% YoY, 4.4% QoQ; 36% of total revenue) exceeded our model of QR125.6mn by 5.9%.** The company continues to experience FF growth related to the North Field expansion project. However, marine services is facing challenges due to low volumes at Hamad Port.
- Gross margins softened given higher mix of lower-margin FF revenue and pricing pressure in logistics hubs.** 2Q2024 gross margin was 29.6% vs. 30.7% in 2Q2023 & 31.1% in 1Q2024. GM came in below our model of 31.9%. 2Q2024 GP of QR110.3mn (-3.7% YoY, -5.7% QoQ) fell below our forecast of QR121.4mn by 9.1%.
- EBITDA also dipped below our model: 2Q2024 EBITDA of QR137.9mn (5.3% YoY, -6.8% QoQ) also fell below our model of QR147.4mn by 6.4%.** GWCS also reported an EBITDA margin of 37.0% in 2Q2024 vs. 35.1% in 2Q2023 and 39.4% in 1Q2024; we were expecting an EBITDA margin of 38.7%.
- Finance charges continue to bite but came in below our model.** GWCS posted 2Q2024 finance charges (including finance costs on lease liabilities) of QR35.1mn (43.5% YoY/-3.7% QoQ), which came in 6.7% below our model of QR37.6mn. Total debt fell 3.7% YTD to QR1.9bn in 2Q2024 vs. QR2.0bn in end-2023 due to scheduled repayment of loans. Average effective interest rate on debt (excluding lease liabilities) increased to 6.7% in 2Q2024 vs. 4.6% in 2Q2023.
- One-off other income of QR8.6mn propped up net income for 2Q2024.** This is essentially a one-time "cleanup" of accounts payables/accounts receivables accumulated over the previous 3+ years concerning amounts that do not need to be paid/have already been received.

Catalysts

- We note several projects not in our model: (1) Al Wukair phase 3** – GWCS could move forward, assuming favorable demand for phase 2, which could lead to ~6% EPS acceleration. However, the demand outlook has softened with GWCS facing pricing/occupancy challenges, especially on smaller units from private operators (Bu Sulba had 75 units/44,000 m² vacant and while customers are being incentivized with free months, management only expects moderate improvement by YE2024). **(2) GWC Energy**, is targeting the offshore/onshore-integrated shipping, logistics & marine services market in Qatar/GCC and could benefit from increased NF activity as Qatar expands its LNG capacity from 77 MTPA to 142 MTPA by 2030. Management is expecting a pickup in 2024 given some vessel delays. GWCS is also building a 15,000 m² facility in Ras Laffan (December 2024 completion) to serve EPC contractors for the North Field project. **(3) Expansion outside Qatar**, for e.g., FF in the KSA (with potential to expand into warehousing longer term). **The stock continues to suffer from a lack of liquidity, which needs to be addressed. An uptick in DPS could also be catalyst** given the below-market yield but a significant increase is unlikely.

Recommendation, Valuation and Risks

- We rate GWCS as an Accumulate with a price target of QR4.025.** GWCS trades at P/Es of 8.6x and 8.1x for 2024 & 2025, respectively, which is attractive relative to its historical mean of ~11x.
- Risks:** LT growth in warehousing demand in Qatar remains uncertain. Receivable collections have been subdued. Geopolitical risks cannot be modeled.

Key Financial Data and Estimates

	FY2022	FY2023	FY2024e	FY2025e
Revenue (QR mn)	1,519	1,508	1,554	1,618
Growth	16%	-1%	3%	4%
EPS (QR)	0.41	0.37	0.38	0.40
Growth	7%	-10%	3%	7%
P/E (x)	8.0x	8.9x	8.6x	8.1x
DPS (QR)	0.10	0.11	0.11	0.12

Source: Company data, QNB FS estimates; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	3.266
Dividend Yield (%)	3.4
Bloomberg Ticker	GWCS QD
ADR/GDR Ticker	N/A
Reuters Ticker	GWCS.QA
ISIN	QA000A0KD6H9
Sector*	Transportation
52wk High/52wk Low (QR)	3.520/2.890
3-m Average Volume (mn)	0.7
Mkt. Cap. (\$ bn/QR bn)	0.5/1.9
EV (\$ bn/QR bn)	1.1/3.9
Shares Outstanding (mn)	586.0
FO Limit* (%)	100.0
Current Institutional FO* (%)	5.6
1-Year Total Return (%)	(1.5)
Fiscal Year End	December 31

Source: Bloomberg (as of July 31, 2024), *Qatar Exchange (as of July 31, 2024); Note: FO is foreign ownership

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QNB FS 2Q2024 Estimates and Comparisons

Income Statement (QR 000)	2Q2023	1Q2024	2Q2024	2Q2024e	A Vs. E	YoY	QoQ
Revenue	373,255.191	375,731.349	372,606.327	380,426.089	-2.1%	-0.2%	-0.8%
YoY	1.5%	-9.0%	-0.2%	1.9%			
QoQ	-9.6%	0.8%	-0.8%	1.2%			
Logistics	239,358.145	246,007.432	237,217.579	252,521.534	-6.1%	-0.9%	-3.6%
Warehouse Management Services	198,465.425	200,207.069	195,473.217	205,912.970	-5.1%	-1.5%	-2.4%
Transport Services	12,654.954	11,831.347	10,434.023	12,006.451	-13.1%	-17.5%	-11.8%
Fine Arts	11,991.956	16,575.738	16,205.376	20,106.629	-19.4%	35.1%	-2.2%
Records Management Services	16,245.810	17,393.278	15,104.963	14,495.483	4.2%	-7.0%	-13.2%
Freight Forwarding	130,455.582	127,452.243	133,017.393	125,617.191	5.9%	2.0%	4.4%
Freight Forwarding Services	121,700.253	118,318.445	123,879.237	118,081.808	4.9%	1.8%	4.7%
Courier Services	8,755.329	9,133.798	9,138.156	7,535.383	21.3%	4.4%	0.0%
Rental Income From Investment Property	2,452.848	1,441.498	1,441.498	1,441.498	0.0%	-41.2%	0.0%
Others	988.616	830.176	929.857	845.866	9.9%	-5.9%	12.0%
Direct Costs	(258,703.412)	(258,720.911)	(262,283.239)	(258,994.082)	1.3%	1.4%	1.4%
Gross Profit	114,551.779	117,010.438	110,323.088	121,432.008	-9.1%	-3.7%	-5.7%
General & Administration expenses	(34,915.011)	(29,079.779)	(32,615.297)	(34,656.817)	-5.9%	-6.6%	12.2%
Amortization of Intangible Assets							
Operating Profit	79,636.768	87,930.659	77,707.791	86,775.191	-10.4%	-2.4%	-11.6%
Finance Income	136.630	690.341	398.146	799.415	-50.2%	191.4%	-42.3%
Finance Costs	(24,462.556)	(36,469.575)	(35,102.261)	(37,636.601)	-6.7%	43.5%	-3.7%
Other Income	147.087	127.309	8,619.146	125.952	6743.2%	5759.9%	6670.3%
Net Impairment Loss On Trade Receivables	(575.000)	(575.000)	(375.000)	(575.000)	-34.8%	-34.8%	-34.8%
EBT	54,882.929	51,703.734	51,247.822	49,488.956	3.6%	-6.6%	-0.9%
Taxes	(303.090)	(314.589)	(1,261.957)	(301.113)	319.1%	316.4%	301.1%
Net Income	54,579.839	51,389.145	49,985.865	49,187.843	1.6%	-8.4%	-2.7%
YoY	-8.5%	-18.4%	-8.4%	-9.9%			
QoQ	-13.4%	5.5%	-2.7%	-4.3%			
Non-Controlling Interest	1,245.843	510.065	513.736	488.216	5.2%	-58.8%	0.7%
Net Income to Equity	53,333.996	50,879.080	49,472.129	48,699.627	1.6%	-7.2%	-2.8%
YoY	-6.4%	-17.2%	-7.2%	-8.7%			
QoQ	-13.3%	7.9%	-2.8%	-4.3%			
NM	14.3%	13.5%	13.3%	12.8%			
EPS (QR)	0.091	0.087	0.084	0.083	1.6%	-7.2%	-2.8%
Provision for Impairment of Trade Receivables	575.000	575.000	375.000	575.000	-34.8%	-34.8%	-34.8%
Depreciation & Amortization	51,300.638	60,051.620	60,212.198	60,586.079	-0.6%	17.4%	0.3%
EBITDA	130,937.406	147,982.279	137,919.989	147,361.270	-6.4%	5.3%	-6.8%
GM	30.7%	31.1%	29.6%	31.9%			
G&A	9.4%	7.7%	8.8%	9.1%			
EBIT	21.3%	23.4%	20.9%	22.8%			
EBITDA	35.1%	39.4%	37.0%	38.7%			

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023	FY2024e	FY2025e	FY2026e	FY2027e
Revenue	1,519	1,508	1,554	1,618	1,678	1,743
<i>YoY Growth</i>	16%	-1%	3%	4%	4%	4%
Direct Costs, Excluding D&A	(919)	(850)	(835)	(898)	(954)	(1,003)
Gross Profit	600	658	718	720	723	740
<i>Gross Margin</i>	39%	44%	46%	45%	43%	42%
General & Admin. Expenses, Excl. D&A	(119)	(127)	(121)	(125)	(129)	(135)
EBITDA	481	531	598	595	594	606
<i>YoY Growth</i>	6%	11%	12%	0%	0%	2%
<i>EBITDA Margin</i>	32%	35%	38%	37%	35%	35%
Depreciation and Amortization	(172)	(207)	(233)	(236)	(238)	(240)
EBIT	309	324	364	360	356	365
<i>YoY Growth</i>	7%	5%	12%	-1%	-1%	3%
<i>EBIT Margin</i>	20%	21%	23%	22%	21%	21%
Net Finance Costs and Other Income	(57)	(102)	(139)	(118)	(98)	(88)
PBT	252	222	226	242	258	277
Taxes	(2)	(2)	(2)	(2)	(2)	(2)
Net Income	249	220	224	240	256	275
Minority Interest	10	5	3	3	3	3
Net Income to Equity	240	215	222	237	253	272
<i>YoY Growth</i>	7%	-10%	3%	7%	7%	7%
<i>Net Margin</i>	16%	14%	14%	15%	15%	16%
EPS (QR)	0.41	0.37	0.38	0.40	0.43	0.46
DPS (QR)	0.10	0.11	0.11	0.12	0.13	0.14
<i>Payout Ratio</i>	24%	30%	29%	30%	30%	30%

Source: Company data, QNB FS estimates

Detailed Financial Statements

Balance Sheet (In QR mn)	FY2022	FY2023	FY2024e	FY2025e	FY2026e	FY2027e
Non-Current Assets						
PP&E, WIP & Right of Use Assets	3,596	4,066	3,899	3,774	3,645	3,511
Investment Properties	41	41	41	41	41	41
Intangible Assets & Goodwill	117	121	116	116	116	115
Available-for-Sale Investments/Other	18	18	18	18	18	18
Total Non-Current Assets	3,772	4,247	4,075	3,950	3,820	3,686
Current Assets						
Inventories	16	11	14	15	16	17
Trade and Other Receivables	748	659	722	753	781	812
Bank Balances and Cash	238	280	215	185	239	380
Total Current Assets	1,002	950	951	954	1,037	1,209
Total Assets	4,774	5,197	5,026	4,903	4,857	4,895
Total Shareholders' Equity						
Non-Controlling interests	12	20	23	25	28	32
Non-Current Liabilities						
Lease Liabilities & Others	208	227	251	281	309	336
Loans and Borrowings	1,269	1,453	1,367	1,071	840	763
Employee Benefits & Others	58	60	67	71	76	80
Total Non-Current Liabilities	1,535	1,741	1,684	1,423	1,225	1,179
Current Liabilities						
Trade Payables	95	87	83	90	95	100
Loans and Borrowings	523	564	315	253	197	66
Accruals, Provisions & Other Payables	351	348	331	357	379	398
Lease Liabilities	11	16	16	15	15	15
Retention Payable	15	39	39	39	39	39
Total Current Liabilities	996	1,053	784	754	726	618
Total Liabilities	2,531	2,794	2,469	2,177	1,951	1,797
Total Equity & Liabilities	4,774	5,197	5,026	4,903	4,857	4,895

Source: Company data, QNB FS estimates

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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