

## Gulf Warehousing Company (GWCS)

Recommendation	OUTPERFORM	Risk Rating	R-4
Share Price	QR39.70	Current Target Price	QR51.00
Implied Upside	28.5%	Old Target Price	QR53.00

### Updating Model Post 2017 Results; Upgrade to Outperform

**We remain bullish on GWCS and upgrade the stock from an Accumulate to an Outperform given share price weakness.** GWCS has withstood the blockade well with its freight forwarding business bouncing back nicely after an initial hit. The company's logistics business has also picked up steam driven by contract logistics and increasing occupancy in Bu Sulba. GWCS stock is down 17%, on a total return basis, since the beginning of the blockade vs. a 13% decline in the MSCI Qatar Index (10% fall in the QSE Index) and we believe this underperformance is unwarranted. While growth post Bu Sulba (~100% occupancy later in 2018) will decline, as we had flagged previously, GWCS should start generating substantial free cash flow from 2018 onward with FCF yields increasing from 1.9% in 2017 to 8.3% in 2018, reaching 19.5% in 2023. Dividend yields remain at 4.5% for 2018 and should grow to 6.5% by 2023. With major capex already behind us, there could be potential upside to dividends medium-term.

#### Highlights

- 4Q2017 results came in line with our estimate.** GWCS reported net profit of QR58.2mn (+12% QoQ/+5% YoY) in 4Q2017 (as compared to QR52.0mn in 3Q2017), in line with our estimate of QR56.4mn (+3% variance).
- Total revenue reached QR966.9mn for 2017, representing an increase of 14% from QR849.5mn in 2016.** GWCS posted strong growth in freight forwarding, which increased 21% YoY to QR314.1mn. Logistics revenue also gained 11% to QR652.8mn. Freight forwarding was up a very strong 40% sequentially in 4Q2017 (+52% YoY) to QR94.5mn driven by the company's event-based business. We note freight forwarding is a low-margin segment, with cash gross margins of 29% for 2017. Logistics revenue for 4Q2017 increased 3% QoQ/7% YoY to QR177.2mn benefiting from growth in contract logistics and increased occupancy in Bu Sulba (YE2017: ~80% occupancy). The logistics segment remains value accretive with high cash gross margins of 91% for the rental business (LVQ) and 39% for the remaining logistics operations (contract logistics, records management, transport, moving & relocation, etc.).
- For 2018, we see 10% top-line growth with 5% rise in earnings.** While contract logistics should see growth due to increased utilization of pallet positions, the rental business could get a boost from average utilization at Bu Sulba almost doubling to near-100%. Freight forwarding should be flattish, however. We model slight GM uptick given greater mix of higher-margin rental revenue but net margins should drop with higher interest charges and depreciation (detailed model & ratios included in the report).

#### Catalysts

- Newsflow on development of new projects could drive GWCS.** (1) The recently announced 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 upgrade GWCS to an Outperform.** Stock trades at P/E of 10.2x and 9.2x for 2018 & 2019, respectively.
- Risks:** include low occupancy in 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	1,067	1,132	1,175
Growth	14%	10%	6%	4%
EBITDA (QR mn)	373	427	447	453
Growth	16%	14%	5%	1%
Net Income (QR mn)	215	227	252	266
EPS (QR)	3.68	3.87	4.30	4.54
Growth	5%	5%	11%	6%
P/E (x)	10.8x	10.2x	9.2x	8.7x
DPS (QR)	1.70	1.80	2.00	2.10
Dividend Yield	4.3%	4.5%	5.0%	5.3%
ROE	13.7%	13.4%	13.8%	13.5%

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)	57.80/36.66
3-m Average Volume ('000)	46.3
Mkt. Cap. (\$ bn/QR bn)	0.7/2.6
Shares Outstanding (mn)	58.6
FO Limit* (%)	49.0
Current FO* (%)	26.7
1-Year Total Return (%)	(26.6)
Fiscal Year End	Dec. 31

Source: Bloomberg (as of February 7, 2018), \*Qatar Exchange (as of February 7, 2018); Note: FO is foreign ownership

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## Valuation

We think the stock is worth QR51, which implies almost 30% upside from current levels. Our other assumptions include, COE: 11.9% and a terminal growth rate of 3%. We also use a varying WACC starting with 8.9% in 2018 leading to 11.3% in 2023.

### Discounted Cash Flow Valuation

Particulars	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e
EBIT	275.2	288.4	289.2	304.8	308.1	309.2
Social & Sports Contribution Fund	(5.7)	(6.3)	(6.7)	(7.4)	(7.8)	(8.2)
Depreciation and Amortization	151.4	158.3	163.5	173.5	177.9	181.4
Changes in Working Capital	(64.2)	1.2	(1.1)	(3.3)	(1.4)	(3.9)
Capex	(122.8)	(122.8)	(47.8)	(47.8)	(47.8)	(47.8)
<b>Free Cash Flow to Firm</b>	<b>233.9</b>	<b>318.8</b>	<b>397.2</b>	<b>419.8</b>	<b>429.0</b>	<b>430.7</b>
Growth Rate		36.3%	24.6%	5.7%	2.2%	0.4%
PV of FCF	214.8	267.3	301.6	286.0	259.0	226.8
<b>Cumulative PV of FCF</b>	<b>214.8</b>	<b>482.1</b>	<b>783.7</b>	<b>1,069.6</b>	<b>1,328.7</b>	<b>1,555.5</b>

Terminal Value	5,358.0
<b>PV of Terminal Value</b>	<b>2,821.8</b>

<b>PV of Cash Flows</b>	<b>4,377.2</b>
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Add:

Cash Balances	351.8
Associates and Investments	37.4
Expected Rights Issue	

Less:

Debt Balances	1,786.9
Minority Interest	(3.7)

<b>Fair Value of Equity</b>	<b>2,983.2</b>
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<b>Fair Value of Equity (Per Share)</b>	<b>51.00</b>
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<b>Stock Price</b>	<b>39.70</b>
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<b>% Upside/(Downside)</b>	<b>28.5%</b>
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Source: Company data, QNBFS estimates

### GWCS is Relatively Attractive on P/E, P/CF & EV/EBITDA With Higher FCF Yields

Company	Ticker	Div. Yield	P/E		P/CFPS		EV/EBITDA		FCF Yield	
			FY2018e	FY2019e	FY2018e	FY2019e	FY2018e	FY2019e	FY2018e	FY2019e
Aramex PJSC	ARMX	3.9%	13.0x	10.6x	NA	NA	8.6x	7.5x	7.0%	8.4%
Agility Public Warehousing Co KSC	AGLTY	1.6%	NA	NA	NA	NA	NA	NA	NA	NA
Sinotrans Ltd	598	3.0%	NA	NA	NA	NA	NA	NA	NA	NA
Singapore Post Ltd	SPOST	1.4%	NA	NA	NA	NA	NA	NA	NA	NA
Nippon Express Co Ltd	9062	1.7%	15.4x	14.9x	6.9x	7.0x	7.7x	7.4x	4.0%	4.5%
Nippon Yusen KK	9101	NA	18.8x	12.3x	4.0x	3.6x	11.2x	10.8x	2.2%	6.9%
Expedia Inc	EXPE	0.9%	23.9x	20.1x	12.3x	10.7x	11.2x	9.7x	6.1%	7.2%
United Parcel Service Inc	UPS	3.0%	15.5x	14.2x	10.4x	9.8x	10.1x	9.4x	3.4%	3.6%
FedEx Corp	FDX	0.8%	15.7x	14.5x	9.2x	7.9x	8.4x	7.4x	2.9%	4.2%
Deutsche Post AG	DPW	2.8%	15.3x	14.1x	12.2x	11.1x	8.7x	8.1x	4.1%	4.8%
Panalpina Welttransport Holding AG	PWTN	2.5%	35.2x	26.6x	24.9x	20.4x	17.3x	14.3x	3.1%	3.7%
<b>Average</b>		<b>2.1%</b>	<b>19.1x</b>	<b>15.9x</b>	<b>11.4x</b>	<b>10.1x</b>	<b>10.4x</b>	<b>9.3x</b>	<b>4.1%</b>	<b>5.4%</b>
<b>Median</b>		<b>2.1%</b>	<b>15.6x</b>	<b>14.4x</b>	<b>10.4x</b>	<b>9.8x</b>	<b>9.4x</b>	<b>8.8x</b>	<b>3.7%</b>	<b>4.7%</b>
<b>Gulf Warehousing Co</b>	<b>GWCS</b>	<b>4.3%</b>	<b>10.2x</b>	<b>9.2x</b>	<b>7.4x</b>	<b>5.6x</b>	<b>8.6x</b>	<b>7.8x</b>	<b>8.3%</b>	<b>12.4%</b>

Note: Where coverage is not available, estimates are based on Bloomberg consensus, if available

Mean/Median calculated if more than 3 observations are present

NA: Not Applicable

nmf: Not Meaningful (typically refers to negative or exceedingly large values)

Source: Bloomberg, QNBFS Research

## Valuation Metrics

	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e
<b>Valuation</b>								
EV/EBITDA	11.5x	10.1x	8.6x	7.8x	7.1x	6.1x	5.4x	4.7x
P/E	11.3x	10.8x	10.2x	9.2x	8.7x	7.9x	7.5x	7.1x
P/CF	5.2x	6.9x	7.4x	5.6x	5.4x	5.0x	4.8x	4.6x
P/BV	1.5x	1.4x	1.3x	1.2x	1.1x	1.1x	1.0x	0.9x
Dividend Yield	4.0%	4.3%	4.5%	5.0%	5.3%	5.8%	6.2%	6.5%
FCF Yield	-21.7%	1.9%	8.3%	12.4%	16.4%	17.9%	18.9%	19.5%

Source: Bloomberg, QNBFS estimates

## Ratio Analysis

	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e
<b>Growth (%)</b>								
Revenue	7.8%	13.8%	10.3%	6.1%	3.8%	7.0%	2.7%	2.0%
Cash Gross Profit	8.6%	15.4%	12.1%	4.4%	1.6%	5.2%	1.9%	1.3%
EBITDA	11.5%	15.6%	14.2%	4.7%	1.3%	5.6%	1.6%	0.9%
EBIT	11.1%	13.6%	12.1%	4.8%	0.3%	5.4%	1.1%	0.4%
Net Profit	11.1%	4.8%	5.4%	11.1%	5.5%	10.8%	5.7%	4.7%
Cash Flow Per Share	1033.7%	-25.6%	-6.1%	30.8%	4.0%	8.4%	4.9%	3.1%
Free Cash Flow Per Share	nmf	nmf	335.1%	50.4%	31.7%	9.4%	5.4%	3.4%

## Profitability (%)

Gross Margin	46.9%	47.5%	48.3%	47.5%	46.5%	45.7%	45.4%	45.1%
EBITDA Margin	38.0%	38.6%	40.0%	39.5%	38.5%	38.0%	37.6%	37.3%
EBIT Margin	25.4%	25.4%	25.8%	25.5%	24.6%	24.2%	23.9%	23.5%
Net Margin	24.2%	22.3%	21.3%	22.3%	22.7%	23.5%	24.1%	24.8%
RoAE	14.0%	13.7%	13.4%	13.8%	13.5%	13.9%	13.6%	13.3%
RoAA	6.1%	5.7%	6.1%	7.1%	7.7%	8.8%	9.6%	10.4%
BEP	6.4%	6.5%	7.4%	8.1%	8.4%	9.1%	9.5%	9.8%
RoAIC	6.0%	7.3%	8.6%	9.7%	10.5%	11.7%	12.4%	13.1%
RoACE	7.0%	7.2%	8.2%	8.8%	9.2%	10.1%	10.6%	11.0%

## Liquidity

Current Ratio	2.0x	1.5x	1.4x	1.3x	1.2x	1.3x	1.4x	2.0x
Quick Ratio	2.0x	1.5x	1.4x	1.2x	1.2x	1.3x	1.3x	2.0x
Cash Ratio	0.9x	0.6x	0.4x	0.3x	0.3x	0.3x	0.4x	0.6x

## 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	5.8x	7.1x	8.9x	12.1x	17.6x	30.9x
Net Debt-to-EBITDA	4.3x	3.8x	3.1x	2.6x	2.0x	1.3x	0.6x	-0.0x
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
<b>Revenue</b>	<b>967</b>	<b>1,067</b>	<b>1,132</b>	<b>1,175</b>	<b>1,258</b>	<b>1,292</b>
<i>YoY Growth</i>	14%	10%	6%	4%	7%	3%
<i>Direct Costs</i>	<b>(507)</b>	<b>(552)</b>	<b>(594)</b>	<b>(628)</b>	<b>(683)</b>	<b>(706)</b>
<b>Gross Profit</b>	<b>459</b>	<b>515</b>	<b>538</b>	<b>547</b>	<b>575</b>	<b>586</b>
<i>Gross Margin</i>	48%	48%	48%	47%	46%	45%
General and Administrative Expenses	(86)	(89)	(91)	(94)	(97)	(100)
<b>EBITDA</b>	<b>373</b>	<b>427</b>	<b>447</b>	<b>453</b>	<b>478</b>	<b>486</b>
<i>YoY Growth</i>	16%	14%	5%	1%	6%	2%
<i>EBITDA Margin</i>	39%	40%	39%	39%	38%	38%
Depreciation and Amortization	(128)	(151)	(158)	(164)	(173)	(178)
<b>EBIT</b>	<b>246</b>	<b>275</b>	<b>288</b>	<b>289</b>	<b>305</b>	<b>308</b>
<i>YoY Growth</i>	14%	12%	5%	0%	5%	1%
<i>EBIT Margin</i>	25%	26%	25%	25%	24%	24%
Net Finance Costs and Other Income	(30)	(48)	(36)	(23)	(10)	4
<b>Net Income to Equity</b>	<b>215</b>	<b>227</b>	<b>252</b>	<b>266</b>	<b>295</b>	<b>312</b>
<i>YoY Growth</i>	5%	5%	11%	6%	11%	6%
<i>Net Margin</i>	22%	21%	22%	23%	23%	24%
<b>EPS (QR)</b>	<b>3.68</b>	<b>3.87</b>	<b>4.30</b>	<b>4.54</b>	<b>5.03</b>	<b>5.32</b>
<b>DPS (QR)</b>	<b>1.70</b>	<b>1.80</b>	<b>2.00</b>	<b>2.10</b>	<b>2.30</b>	<b>2.45</b>
<i>Payout Ratio</i>	46%	46%	46%	46%	46%	46%

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e	FY2021e	FY2022e
<b>Non-Current Assets</b>						
PP&E and Projects in Progress	2,729	2,708	2,680	2,572	2,453	2,331
Investment Properties	37	38	38	38	39	39
Leasehold Property & Associates	-	-	-	-	-	-
Intangible Assets	119	112	104	97	90	82
Available-for-Sale Investments	-	-	-	-	-	-
<b>Total Non-Current Assets</b>	<b>2,886</b>	<b>2,857</b>	<b>2,822</b>	<b>2,707</b>	<b>2,581</b>	<b>2,452</b>
<b>Current Assets</b>						
Inventories	11	11	12	12	13	14
Trade and Other Receivables	525	526	527	530	533	533
Bank Balances and Cash	352	229	142	136	159	194
<b>Total Current Assets</b>	<b>888</b>	<b>766</b>	<b>681</b>	<b>678</b>	<b>705</b>	<b>741</b>
<b>Total Assets</b>	<b>3,774</b>	<b>3,623</b>	<b>3,504</b>	<b>3,385</b>	<b>3,287</b>	<b>3,192</b>
<b>Equity &amp; Liabilities</b>						
<b>Total Shareholders' Equity</b>	<b>1,636</b>	<b>1,757</b>	<b>1,898</b>	<b>2,040</b>	<b>2,205</b>	<b>2,374</b>
Non-Controlling interests	(4)	(4)	(4)	(4)	(4)	(4)
<b>Non-Current Liabilities</b>						
Loans and Borrowings	1,525	1,301	1,031	761	492	222
Employee Benefits	31	35	40	44	48	53
<b>Total Non-Current Liabilities</b>	<b>1,556</b>	<b>1,337</b>	<b>1,071</b>	<b>806</b>	<b>540</b>	<b>275</b>
<b>Current Liabilities</b>						
Trade Payables	53	54	57	58	60	60
Loans and Borrowings	261	270	270	270	270	270
Accruals, Provisions & Other Payables	203	209	212	215	216	218
Retention Payable	68	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>585</b>	<b>533</b>	<b>539</b>	<b>543</b>	<b>546</b>	<b>548</b>
<b>Total Liabilities</b>	<b>2,142</b>	<b>1,869</b>	<b>1,610</b>	<b>1,348</b>	<b>1,086</b>	<b>822</b>
<b>Total Equity &amp; Liabilities</b>	<b>3,774</b>	<b>3,623</b>	<b>3,504</b>	<b>3,385</b>	<b>3,287</b>	<b>3,192</b>

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

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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