

Gulf Warehousing Company (GWCS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR3.475	Target Price	QR4.855
Implied Upside	39.7%	Old Target Price	QR5.100

Attractive Valuation But Needs A Catalyst; Stay Accumulate

Despite healthy top-line/EBITDA growth, we forecast earnings to decline 9.3% in 2023. Start-up of new projects around September/4Q2023, such as Al Wukair phase 2, LVQ phase 6 (chemicals warehouse facility) and Flag Oman (warehouse), add to the revenue momentum in 2023 (offsetting moderate weakness post the WC) and in 2024. However, significantly higher finance charges, along with higher depreciation expenses, should take a bite out of earnings in 2023. Earnings acceleration in 2024 and emerging details on medium-term growth prospects could act as positive catalysts for the stock going forward. As we have pointed out previously, the 50% cut in DPS from QR0.20 in 2019 to QR0.10 over 2020-2022, and the resultant near-halving of the payout ratio from 47% in 2019 to ~25% over 2020-2022, has depressed stock price performance. While we do not envision an increase in DPS in 2023, we do continue to believe GWCS' relative underperformance could reverse going forward, especially in light of the company's growth catalysts and attractive valuation. We note several potential projects not in our model: (1) Al Wukair phase 3 – management could move forward, assuming favorable demand for phase 2 (already ~60% pre-sold), which could lead to ~6% earnings acceleration. (2) Newly-formed subsidiary, GWC Energy, is set to tap both the offshore and the onshore-integrated shipping, logistics and marine services segment in Qatar/GCC and could benefit from increased North Field activity as Qatar significantly expands its LNG capacity from 77 MTPA to 126 MTPA by 2026. (3) Growth and expansion outside of Qatar, for example, freight forwarding in the KSA and the UAE. We continue to rate GWCS an Accumulate but revise our price target from QR5.100 to QR4.855. The stock continues to suffer from a lack of liquidity, which we feel needs to be addressed.

Highlights

- 1Q2023 net profit came in at QR61.5mn (6.4% YoY, -6.0% QoQ), which was 5.5% shy of our estimate of QR65.1mn. Considering that GWCS moderately beat our revenue estimate, the downside this quarter came from lower-than-expected margins. 1Q2023 gross margin came in 29.2% vs. 29.5% in both 1Q2022 and 4Q2022. The reported gross margin came in below our estimate of 29.4%. GWCS also reported an EBITDA margin of 33.8% in 1Q2023 vs. 32.6% in 1Q2022 and 32.4% in 4Q2022.
- We expect earnings to decline 9.3% in 2023 to QR217.3mn before increasing 25.9% to QR273.4mn in 2024. Our current model calls for revenue to grow 4.8% from QR1,518.9mn to QR1,592.3mn in 2023, a 4.7% increase vs. our previous forecast. We also expect EBITDA to jump 9.2% YoY from QR480.8mn in 2022 to QR525.1mn, which implies an increase in EBITDA margins from 31.7% to 33.0% in 2023 (33.8% in 1Q2023). Despite healthy growth in revenue and margins, we expect an earnings decline this year as finance charges are projected to significantly increase 80.7% from QR47.9mn in 2022 to QR86.6mn in 2023. This, along with an 18.2% increase in depreciation, sends earnings down 9.3% this year. For 2024, we expect growth across the board as the full impact of Al Wukair phase 2, LVQ phase 6 and Flag Oman flow through.

Catalysts

- For GWCS to rerate, we need to see a pickup in newsflow catalysts along with liquidity. Al Wukair phase 3 could be a source of upside, while the new energy services business could be a game-changer if the company is able to secure some North Field-related contracts. Investors could also perceive international expansions, such as relatively recent forays into Oman, the KSA and the UAE, positively. Any uptick in DPS could also be catalyst given the stock's below-market yield but a significant increase is unlikely given potential projects in the pipeline, in our view.

Recommendation, Valuation and Risks

- We rate GWCS as an Accumulate with a price target of QR4.855. GWCS trades at P/Es of 9.4x and 7.4x for 2023 & 2024, respectively, which is attractive relative to its historical median of 11.7x.
- Risks: LT growth in warehousing demand in Qatar remains uncertain. Execution risks persist especially for international expansions. Geopolitical risks cannot be modeled.

Key Financial Data and Estimates

	FY2022	FY2023e	FY2024e	FY2025e
Revenue (QR mn)	1,519	1,592	1,723	1,754
Growth	16%	5%	8%	2%
EPS (QR)	0.41	0.37	0.47	0.49
Growth	7%	-9%	26%	5%
P/E (x)	8.5x	9.4x	7.4x	7.1x
DPS (QR)	0.10	0.10	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)	3.475
Dividend Yield (%)	2.9
Bloomberg Ticker	GWCS QD
ADR/GDR Ticker	N/A
Reuters Ticker	GWCS.QA
ISIN	QA000A0KD6H9
Sector*	Transportation
52wk High/52wk Low (QR)	4.970/2.900
3-m Average Volume (mn)	1.1
Mkt. Cap. (\$ bn/QR bn)	0.6/2.0
EV (\$ bn/QR bn)	1.1/4.1
Shares Outstanding (mn)	586.0
FO Limit* (%)	49.0
Current Institutional FO* (%)	4.4
1-Year Total Return (%)	(27.5)
Fiscal Year End	December 31

Source: Bloomberg (as of June 11, 2023), *Qatar Exchange (as of June 11, 2023); Note: FO is foreign ownership

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Estimate Revisions

QNB FS Estimates Revisions

In QR Millions	Current			▲	Previous			▲	Current		
	2022	2023	2023		2024	2024	2025		2025	2025	2025
Revenue	1,518.9	1,592.3	1,520.4	4.7%	1,723.3	1,633.4	5.5%	1,753.8	1,691.8	3.7%	
Gross Profit	599.6	645.2	597.2	8.0%	703.7	637.5	10.4%	706.9	655.1	7.9%	
Gross Margin	39.5%	40.5%	39.3%		40.8%	39.0%		40.3%	38.7%		
EBITDA	480.8	525.1	473.6	10.9%	577.6	507.8	13.7%	577.2	520.8	10.8%	
EBITDA Margin	31.7%	33.0%	31.2%		33.5%	31.1%		32.9%	30.8%		
Depreciation & Amortization	(172.0)	(203.4)	(169.2)	20.2%	(209.6)	(191.2)	9.6%	(213.9)	(192.6)	11.1%	
EBIT	308.7	321.7	304.4	5.7%	368.0	316.6	16.2%	363.3	328.2	10.7%	
EBIT Margin	20.3%	20.2%	20.0%		21.4%	19.4%		20.7%	19.4%		
Interest Expense	(47.9)	(86.6)	(56.0)	54.5%	(75.2)	(43.9)	71.3%	(57.4)	(32.5)	76.5%	
Net Income	239.6	217.3	226.0	-3.8%	273.4	250.3	9.2%	286.5	273.3	4.8%	
Net Margin	15.8%	13.6%	14.9%		15.9%	15.3%		16.3%	16.2%		

Source: Company data, QNB FS estimates

Valuation and Key Ratios

Valuation Metrics

	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Valuation												
EV/EBITDA	10.6x	9.7x	7.3x	7.4x	7.7x	8.1x	7.9x	7.2x	6.0x	5.3x	4.7x	4.1x
P/E	9.9x	9.5x	9.0x	8.2x	8.6x	9.1x	8.5x	9.4x	7.4x	7.1x	7.0x	6.9x
P/CF	4.5x	6.1x	5.5x	5.9x	4.6x	5.8x	5.8x	4.3x	4.3x	3.9x	3.8x	3.8x
P/FCF	N/M	46.1x	7.2x	12.1x	48.7x	-52.9x	-24.5x	23.5x	5.2x	4.7x	4.6x	4.5x
P/BV	1.3x	1.3x	1.2x	1.1x	1.1x	1.0x	0.9x	0.9x	0.8x	0.7x	0.7x	0.6x
Dividend Yield	4.6%	4.9%	5.5%	5.8%	2.9%	2.9%	2.9%	2.9%	3.2%	3.5%	3.7%	4.0%
FCF Yield	-24.8%	2.2%	14.0%	8.2%	2.1%	-1.9%	-4.1%	4.3%	19.1%	21.1%	21.7%	22.0%

Source: Company data, QNB FS estimates

Ratio Analysis

	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Growth (%)												
Revenue	7.8%	15.5%	25.6%	-0.8%	1.0%	5.7%	16.5%	4.8%	8.2%	1.8%	1.4%	1.4%
Cash Gross Profit	8.6%	19.4%	22.4%	-1.3%	-4.1%	1.1%	7.7%	7.6%	9.1%	0.5%	-0.1%	0.0%
EBITDA	11.5%	20.1%	26.5%	-2.7%	-3.4%	-1.7%	6.1%	9.2%	10.0%	-0.1%	-0.8%	-0.7%
EBIT	11.1%	20.3%	18.5%	-0.6%	-2.0%	-3.4%	6.5%	4.2%	14.4%	-1.3%	-2.3%	-2.3%
Net Profit	11.1%	4.8%	5.3%	10.0%	-5.4%	-4.7%	6.5%	-9.3%	25.9%	4.8%	2.2%	0.5%
Cash Flow Per Share	1033.7%	-25.6%	10.5%	-7.6%	30.1%	-21.2%	0.1%	33.8%	1.5%	8.5%	2.5%	1.0%
Free Cash Flow Per Share	N/M	N/M	544.8%	-41.1%	-75.1%	N/M	116.0%	N/M	348.5%	10.5%	3.0%	1.2%
Dividends Per Share	6.7%	6.2%	11.8%	5.3%	-50.0%	0.0%	0.0%	0.0%	10.0%	9.1%	8.3%	7.7%
Profitability (%)												
Gross Margin	46.9%	48.4%	47.2%	47.0%	44.7%	42.7%	39.5%	40.5%	40.8%	40.3%	39.7%	39.1%
EBITDA Margin	38.0%	39.5%	39.8%	39.1%	37.4%	34.8%	31.7%	33.0%	33.5%	32.9%	32.2%	31.5%
EBIT Margin	25.4%	26.5%	25.0%	25.1%	24.3%	22.2%	20.3%	20.2%	21.4%	20.7%	20.0%	19.2%
Net Margin	24.2%	22.0%	18.4%	20.4%	19.1%	17.3%	15.8%	13.6%	15.9%	16.3%	16.5%	16.3%
RoAE	14.0%	13.9%	14.0%	14.4%	12.7%	11.3%	11.1%	9.4%	11.0%	10.6%	10.0%	9.4%
RoAA	6.2%	5.6%	5.7%	6.4%	5.9%	5.3%	5.3%	4.4%	5.5%	5.8%	6.0%	6.0%
BEP	6.5%	6.8%	7.8%	7.9%	7.6%	6.9%	6.8%	6.6%	7.4%	7.4%	7.3%	7.1%
RoAIC	6.0%	7.8%	10.0%	9.7%	8.9%	7.9%	7.8%	7.9%	9.7%	10.0%	10.0%	8.7%
RoACE	7.0%	7.7%	9.2%	9.2%	8.8%	8.0%	7.9%	7.8%	8.8%	9.0%	8.9%	8.7%
Liquidity												
Current Ratio	2.0x	1.5x	1.8x	1.5x	1.4x	1.1x	1.0x	1.3x	1.3x	1.5x	1.7x	2.3x
Quick Ratio	2.0x	1.5x	1.8x	1.5x	1.4x	1.1x	1.0x	1.2x	1.3x	1.4x	1.7x	2.3x
Cash Ratio	0.9x	0.6x	0.9x	0.6x	0.5x	0.3x	0.2x	0.3x	0.3x	0.4x	0.6x	1.0x
Debt Ratios												
Debt-to-Equity	1.2x	1.1x	1.0x	0.8x	0.8x	0.8x	0.8x	0.8x	0.6x	0.4x	0.3x	0.2x
Long-Term Debt-to-Equity	1.1x	1.0x	0.9x	0.7x	0.7x	0.6x	0.6x	0.6x	0.5x	0.3x	0.2x	0.2x
EBITDA Interest Coverage	8.4x	7.2x	5.8x	6.1x	8.7x	9.4x	10.0x	6.1x	7.7x	10.1x	13.4x	17.1x
Net Debt-to-EBITDA	4.3x	3.7x	2.6x	2.5x	2.8x	3.1x	3.2x	2.9x	2.1x	1.4x	0.8x	0.2x
Debt-to-Capital	0.6x	0.5x	0.5x	0.5x	0.5x	0.4x	0.4x	0.4x	0.4x	0.3x	0.2x	0.2x

Source: Company data, QNB FS estimates

1Q2023 Review: Modestly Weaker-Than-Expected 1Q2023 On Lower Margins

GWCS' 1Q2023 net profit grew 6.4% YoY but declined 6.0% sequentially and came in below our estimate:

- **Modest 5.5% miss vs. our earnings estimate** – Gulf Warehousing Company's (GWCS) 1Q2023 net profit came in at QR61.5mn (6.4% YoY, -6.0% QoQ), which was 5.5% shy of our estimate of QR65.1mn. Considering that GWCS moderately beat our revenue estimate, the downside this quarter came from lower-than-expected margins.
- **The company's 1Q2023 top-line came in at QR412.7mn, up 17.5% YoY and 0.9% QoQ.** Revenue was 3.4% ahead of our model of QR399.2mn. The logistics segment posted revenue of QR271.6mn (22.2% YoY, -3.0% QoQ; 66% of total revenue), with its sequential decline possibly caused by a falloff in World Cup-related business from its 4Q2022 highs. Segment revenue from logistics modestly missed our forecast. Freight forwarding top-line of QR138.0mn (9.8% YoY, 9.6% QoQ; 33% of total revenue) beat our model handily. Given that the freight business is generally lower-margin, this explains the weaker-than-expected profitability for the quarter.
- **1Q2023 gross margin came in 29.2% vs. 29.5% in both 1Q2022 and 4Q2022.** The reported gross margin came in below our estimate of 29.4%. GWCS also reported an EBITDA margin of 33.8% in 1Q2023 vs. 32.6% in 1Q2022 and 32.4% in 4Q2022.

Detailed Financial Statements

Income Statement (In QR mn)	FY2022e	FY2023e	FY2024e	FY2025e	FY2026e	FY2027e
Revenue	1,519	1,592	1,723	1,754	1,778	1,803
<i>YoY Growth</i>	16%	5%	8%	2%	1%	1%
Direct Costs	(919)	(947)	(1,020)	(1,047)	(1,072)	(1,098)
Gross Profit	600	645	704	707	706	706
<i>Gross Margin</i>	39%	41%	41%	40%	40%	39%
General and Administrative Expenses	(119)	(120)	(126)	(130)	(133)	(137)
EBITDA	481	525	578	577	573	569
<i>YoY Growth</i>	6%	9%	10%	0%	-1%	-1%
<i>EBITDA Margin</i>	32%	33%	34%	33%	32%	32%
Depreciation and Amortization	(172)	(203)	(210)	(214)	(218)	(222)
EBIT	309	322	368	363	355	347
<i>YoY Growth</i>	7%	4%	14%	-1%	-2%	-2%
<i>EBIT Margin</i>	20%	20%	21%	21%	20%	19%
Net Finance Costs and Other Income	(57)	(97)	(86)	(67)	(53)	(43)
PBT	252	224	282	296	302	304
Taxes	(2)	(2)	(2)	(2)	(2)	(2)
Net Income	249	223	280	294	300	302
Minority Interest	10	6	7	7	7	8
Net Income to Equity	240	217	273	286	293	294
<i>YoY Growth</i>	7%	-9%	26%	5%	2%	1%
<i>Net Margin</i>	16%	14%	16%	16%	16%	16%
EPS (QR)	0.41	0.37	0.47	0.49	0.50	0.50
DPS (QR)	0.10	0.10	0.11	0.12	0.13	0.14
<i>Payout Ratio</i>	24%	27%	24%	25%	26%	28%

Source: Company data, QNB FS estimates

Detailed Financial Statements

Balance Sheet (In QR mn)	FY2022e	FY2023e	FY2024e	FY2025e	FY2026e	FY2027e
Non-Current Assets						
PP&E, WIP & Right of Use Assets	3,596	3,776	3,654	3,529	3,399	3,265
Investment Properties	41	42	42	43	43	43
Intangible Assets & Goodwill	117	116	116	116	116	115
Available-for-Sale Investments/Other	18	18	18	18	18	18
Total Non-Current Assets	3,772	3,952	3,831	3,705	3,576	3,442
Current Assets						
Inventories	16	16	18	18	19	19
Trade and Other Receivables	748	742	800	817	828	840
Bank Balances and Cash	238	290	287	337	457	631
Total Current Assets	1,002	1,048	1,105	1,172	1,303	1,490
Total Assets	4,774	5,000	4,936	4,877	4,879	4,932
Total Shareholders' Equity						
Non-Controlling interests	12	18	25	32	39	47
Non-Current Liabilities						
Lease Liabilities & Others	208	223	238	254	269	285
Loans and Borrowings	1,269	1,482	1,167	915	718	652
Employee Benefits & Others	58	62	67	71	76	80
Total Non-Current Liabilities	1,535	1,767	1,473	1,240	1,063	1,017
Current Liabilities						
Trade Payables	95	95	102	105	107	110
Loans and Borrowings	523	333	315	253	197	66
Accruals, Provisions & Other Payables	351	376	404	416	426	436
Lease Liabilities	11	11	10	10	10	9
Retention Payable	15	15	15	15	15	15
Total Current Liabilities	996	830	846	799	755	636
Total Liabilities	2,531	2,598	2,319	2,039	1,818	1,653
Total Equity & Liabilities	4,774	5,000	4,936	4,877	4,879	4,932

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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