

Gulf Warehousing Company (GWCS)

Recommendation	OUTPERFORM	Risk Rating	R-4
Share Price	QR40.99	Current Target Price	QR51.00
Implied Upside	24.4%		

Solid Start to the Year; Maintain Outperform

GWCS posted solid 1Q2018 numbers with in-line earnings. While gross margins declined as revenue exceeded our forecasts in lower-margin 4PL and freight forwarding businesses, earnings came in-line with our model boosted by the revenue uplift. We have updated our forward expectations reflecting higher revenue from these aforementioned segments along with mostly unchanged EPS estimates. We remain bullish on GWCS and retain our price target of QR51/Outperform rating. GWCS has withstood the blockade well with freight forwarding bouncing back nicely and some 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 14%, on a total return basis, since the beginning of the blockade vs. 4%/5% declines 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 1.8% in 2017 to 13.7% in 2018, reaching 19.5% in 2023. Dividend yield of 4.4% for 2018 should grow to 6.3% by 2023. With major capex already done, there could be upside to dividends medium-term.

Highlights

- 1Q2018 net income came in line with our estimate.** GWCS reported net profit of QR56.7mn (-3% QoQ/+12% YoY) in 1Q2018, in line with our estimate of QR57.4mn (-1% variance).
- Total revenue jumped 15%/40% QoQ/YoY exceeding our forecasts with strong growth in both logistics and freight forwarding.** Logistics is reaching a ~QR200mn quarterly run rate, up 12% QoQ and 35% YoY, benefiting from 4PL contract logistics and increased occupancy in Bu Sulba (94% full). The logistics segment remains value accretive with high cash gross margins of rental business (LVQ: 91%; Bu Sulba: 88%) and 32% for the remaining logistics operations (contract logistics, records management, transport, moving & relocation, etc.). GWCS also posted strong growth in freight forwarding, up 21% QoQ/48% YoY to QR114.0mn driven by its oil & gas customers. However, FF is a low-margin segment, with cash GMs of 27% (2018).
- Reported gross margins contracted to 32% vs. 35.8% in 4Q2017 and 35.6% a year ago.** As previously discussed, higher mix of lower margin segments contributed to this decline.
- Model impact: Revenue estimates upped as we factor in improved traction in 4PL & freight forwarding but margin compression leads to only slight earnings increase.** We up our 2018 revenue forecast by 13% from QR1.1bn to QR1.2bn but our net income forecast just moves up 1% from QR227.1mn to QR230.3mn. Similarly, our overall revenue and EPS estimates increase by an average of 12% and 1%, respectively, over 2018-2023.

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 10.4x and 9.6x for 2018 & 2019, 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>	14%	24%	6%	4%
EBITDA (QR mn)	373	443	464	475
<i>Growth</i>	16%	19%	5%	2%
Net Income (QR mn)	215	230	250	269
EPS (QR)	3.68	3.93	4.26	4.59
<i>Growth</i>	5%	7%	8%	8%
P/E (x)	11.1x	10.4x	9.6x	8.9x
DPS (QR)	1.70	1.80	2.00	2.10
<i>Dividend Yield</i>	4.1%	4.4%	4.9%	5.1%
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)	53.60/36.66
3-m Average Volume ('000)	41.7
Mkt. Cap. (\$ bn/QR bn)	0.7/2.4
EV (\$ bn/QR bn)	1.1/3.9
Shares Outstanding (mn)	58.6
FO Limit* (%)	49.0
Current FO* (%)	26.1
1-Year Total Return (%)	(19.7)
Fiscal Year End	Dec. 31

Source: Bloomberg (as of April 18, 2018), *Qatar Exchange (as of April 18, 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	10.3x	8.1x	7.4x	6.7x	5.8x	5.1x	4.4x
P/E	11.7x	11.1x	10.4x	9.6x	8.9x	8.1x	7.6x	7.2x
P/CF	5.3x	7.2x	5.3x	6.0x	5.6x	5.3x	4.9x	4.6x
P/BV	1.6x	1.5x	1.4x	1.3x	1.2x	1.1x	1.0x	0.9x
Dividend Yield	3.9%	4.1%	4.4%	4.9%	5.1%	5.6%	6.0%	6.3%
FCF Yield	-21.0%	1.8%	13.7%	11.4%	15.9%	16.8%	18.5%	19.5%

Source: Bloomberg, QNBFS estimates

Ratio Analysis

	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e
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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