GWCS Alert – Weaker-Than-Expected 2Q2023 Earnings But Thesis Remains Intact; Accumulate

- **2Q2023 earnings fall short by 7.4% on lower revenue –** Gulf Warehousing Company's (GWCS) 2Q2023 net profit came in at QR53.3mn (-6.4% YoY, -13.3% QoQ), which was 7.4% shy of our estimate of QR57.6mn.
- **The company's 2Q2023 top-line came in at QR373.3mn, up 1.5% YoY but down 9.6% QoQ.** Revenue was 4.2% shy of our model of QR389.6mn. The logistics segment posted revenue of QR242.5mn (8.2% YoY, -10.7% QoQ; 65% of total revenue), with its sequential decline 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 QR127.4mn (-9.7% YoY, -7.7% QoQ; 34% of total revenue) missed our model significantly. Given that the freight business is generally lower-margin, this explains the stronger-than-expected GMs for 2Q2023.
- **2Q2023 gross margin came in 30.7% vs. 27.8% in 2Q2022 and 29.2% in 1Q2023.** The reported gross margin came in above our estimate of 29.8%. GWCS also reported an EBITDA margin of 35.1% in 2Q2023 vs. 31.1% in 2Q2022 and 33.8% in 1Q2023.
- **We maintain our estimates for 2023 and despite healthy top-line/EBITDA growth, we forecast earnings to decline 9.3% in 2023 to QR217.3mn.** This implies a 10.8% decline in 2H2023 earnings to QR102.4mn vs. QR114.8mn in 1H2023. 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 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 (increasing 25.9% to QR273.4mn) and emerging details on medium-term growth prospects could act as positive catalysts for the stock.
- **We rate GWCS as an Accumulate with a price target of QR4.855.** GWCS trades at P/Es of 9.2x and 7.3x for 2023 & 2024, respectively, which is attractive relative to its historical median of 11.7x.
- **For GWCS to rerate, we need to see a pickup in newsflow catalysts along with liquidity.** We note several potential projects not in our model: **(1) Al Wukair phase 3** – management could move forward, assuming favorable demand for phase 2 (~60% pre-sold as of early June), **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. **The stock continues to suffer from a lack of liquidity, which we feel needs to be addressed. 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.

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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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