GWCS Alert – Modestly Weaker-Than-Expected 1Q2023 On Lower Margins; Accumulate

- **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.
- **2023 should be a down year but we expect earnings growth to perk up in 2024.** With construction of phase 2 of Al Wukair expected to be completed by end-2023 (September 2023, according to management), we continue to expect earnings growth in 2024 (after an expected lull in 2023). Our previous forecasts had called for an EPS decline of ~6% in 2023, followed by a resurgence of ~11% in 2024. In addition, GWCS has ventured into two new projects (in Oman and the UAE), which we have not included in our model presently given their lack of details. We believe that these projects could also serve as positive catalysts in the future.
- **We maintain our Accumulate rating and our price target of QR5.10.** GWCS stock continues to underperform, down roughly 11% YTD vs. the QSE Index's decline of ~5%. *While the stock price could present compelling entry points, we expect more of a sustained momentum in 2H2023 as details of Al Wukair Logistics Park phase 2 and other/overseas expansion comes into focus. We also believe a potential increase in dividends (DY is a below-market 2.8%) could make the stock more compelling especially for retail investors.*

QNB FINANCIAL SERVICES

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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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