

Gulf Warehousing Company (GWCS)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR5.074	New Target Price	QR5.400
Implied Upside	6.4%	Old Target Price	QR5.100

Growth to Resume in 2022; Increase TP but Stay Market Perform

GWCS navigated 2020 well with earnings down 5%, in-line with our expectations, after posting uninterrupted growth from 2009 to 2019. However, the 50% cut in DPS from QR0.20 (47% payout) in 2019 to QR0.10 (25%) in 2020, although in-line with market trends, was a negative surprise. As a result of this dividend cut, along with a lack of growth catalysts, the company has underperformed the QSE Index YTD and over one/two-year periods. 1H2021 earnings were down roughly 1% YoY to QR108.3mn and we expect a moderate ~3% growth in 2H2021 net income (relative to 1H2021) to QR111.9mn. Overall, we are projecting a ~7% decline in earnings to QR220.2mn in 2021. Our 2021 DPS estimate is flat at QR0.10 but yield remains a below-market 2.0%. Going forward, with the Al Wukair Logistics Park project expected to start in earnest in 2022, along with the FIFA World Cup Qatar 2022 leading to growth in logistics/freight, we expect net income to resume its growth track increasing approximately 7% YoY to QR236.3mn in 2022. With major capex for announced projects ending, we expect FCF yield to increase from 1.4% in 2020 to 3% in 2021 and 11.6% in 2022. While we are not forecasting a significant uptick in DPS, with major capex already done, there could be upside to dividends medium-term. **We remain Market Perform on GWCS but increase our price target from QR5.100 to 5.400.**

Highlights

- GWCS records 8.8% YoY decline but flattish QoQ (-0.7%) 2Q2021 earnings performance, below our estimate:** GWCS net profit came in at QR54.0mn in 2Q2021, 10.1% below our estimate of QR60.1mn. The company's revenue came in at QR325.1mn in 2Q2021, which represent increases of 7.5% YoY and 8.8% QoQ. Revenue was 6.3% above our forecast of QR306.0mn. Overall margins were below our modeled estimates – gross margin came in at 30.7% vs. 34.0% in 2Q2020 and 32.1% in 1Q2021.
- 3Q2021 preview: we forecast net income of QR55.1mn (-10.3% YoY, 2.0% QoQ).** We expect trends seen in the first half of 2021 to largely persist into the 3rd quarter. We note that while Al Wukair could start contributing to the top- and bottom-lines in late 3Q/early 4Q, our model is more conservative, factoring in its impact only by next year.
- We expect 2021 net income to decline 6.7% YoY.** After a 5.4% decline in 2020, we expect a further decline in earnings this year. Our forecast calls for a moderate 3.3% growth in 2H2021 net income relative to 1H2021.
- Our current forecast calls for a resumption in EPS growth in 2022 (up 7.3%).** We expect phase I of Al Wukair to kick in early next year, with ~120K sqm of rental space (450 units @ 250 sqm/unit), targeted at micro & small enterprises. Al Wukair will also add to contract logistics with 55K pallet positions and 150K sqm of open yard. Roughly, 22% of the space has already been signed up with clients as of July. Moreover, we also expect contract logistics and freight forwarding segments to benefit from the FIFA World Cup Qatar 2022.

Catalysts

- We expect a pickup in newsflow regarding Al Wukair Logistics Park, along with WC2022-related announcements, to act as positive catalysts.** Future disclosures concerning new domestic and/or international expansions could also be perceived positively by investors. In terms of fundamental drivers, corporate restructurings could boost outsourced logistics solutions and 4PL remains a growth area.

Recommendation, Valuation and Risks

- Recommendation and valuation: We rate GWCS as a Market Perform with a price target of QR5.400.** GWCS trades at P/E's of 13.5x and 12.6x for 2021 & 2022, respectively.
- Risks:** The company has not announced any meaningful projects post Al Wukair. Hence, growth in the long-term remains uncertain. Geopolitical risks remain and cannot be modeled.

Key Financial Data and Estimates

	FY2019	FY2020	FY2021e	FY2022e
Revenue (QR mn)	1,222	1,234	1,271	1,380
Growth	(0.8%)	1.0%	3.0%	8.6%
EPS (QR)	0.43	0.40	0.38	0.40
Growth	9.3%	(5.4%)	(6.7%)	7.3%
P/E (x)	11.9x	12.6x	13.5x	12.6x
DPS (QR)	0.20	0.10	0.10	0.11

Source: Company data, QNB FS 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)	5.380/4.901
3-m Average Volume ('000)	151.3
Mkt. Cap. (\$ bn/QR bn)	0.8/3.0
EV (\$ bn/QR bn)	1.3/4.9
Shares Outstanding (mn)	586.0
FO Limit* (%)	49.0
Current FO* (%)	29.6
1-Year Total Return (%)	2.0
Fiscal Year End	Dec. 31

Source: Bloomberg (as of October 03, 2021), *Qatar Exchange (as of October 03, 2021); Note: FO is foreign ownership

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Valuation and Key Ratios

Valuation Metrics

	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Valuation											
EV/EBITDA	13.5x	12.1x	9.2x	9.4x	9.8x	9.7x	8.9x	8.6x	7.9x	7.2x	6.6x
P/E	14.5x	13.8x	13.0x	11.9x	12.6x	13.5x	12.6x	13.1x	12.6x	12.2x	11.9x
P/CF	6.6x	8.9x	8.0x	8.7x	6.7x	8.6x	7.4x	7.1x	7.1x	6.9x	6.8x
P/FCF	<i>nmf</i>	67.3x	10.4x	17.7x	72.8x	33.3x	8.7x	8.3x	8.2x	8.1x	7.9x
P/BV	2.0x	1.9x	1.8x	1.7x	1.6x	1.4x	1.3x	1.2x	1.2x	1.1x	1.0x
Dividend Yield	3.2%	3.4%	3.7%	3.9%	2.0%	2.0%	2.2%	2.2%	2.4%	2.6%	2.6%
FCF Yield	-17.0%	1.5%	9.6%	5.6%	1.4%	3.0%	11.6%	12.1%	12.1%	12.4%	12.7%

Source: Bloomberg, QNB FS estimates

Ratio Analysis

	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Growth (%)											
Revenue	7.8%	15.5%	25.6%	-0.8%	1.0%	3.0%	8.6%	-2.3%	1.0%	1.5%	1.5%
Cash Gross Profit	8.6%	19.4%	22.4%	-1.3%	-4.1%	2.1%	3.2%	-2.2%	0.8%	0.7%	0.7%
EBITDA	11.5%	20.1%	26.5%	-2.7%	-3.4%	0.3%	2.1%	-3.3%	0.4%	0.3%	0.3%
EBIT	11.1%	20.3%	18.5%	-0.6%	-2.0%	-2.1%	5.0%	-5.8%	0.1%	0.2%	-0.2%
Net Profit	11.1%	4.8%	6.0%	9.3%	-5.4%	-6.7%	7.3%	-3.8%	3.7%	3.5%	2.8%
Cash Flow Per Share	1033.7%	-25.6%	10.5%	-7.6%	29.8%	-22.4%	17.2%	4.0%	0.3%	1.6%	2.3%
Free Cash Flow Per Share	<i>nmf</i>	<i>nmf</i>	544.8%	-41.1%	-75.6%	118.7%	284.6%	4.7%	0.3%	1.8%	2.7%
Dividends Per Share	6.7%	6.2%	11.8%	5.3%	-50.0%	0.0%	10.0%	0.0%	9.1%	8.3%	0.0%
Profitability (%)											
Gross Margin	46.9%	48.4%	47.2%	47.0%	44.7%	44.2%	42.1%	42.1%	42.0%	41.7%	41.3%
EBITDA Margin	38.0%	39.5%	39.8%	39.1%	37.4%	36.4%	34.2%	33.9%	33.7%	33.3%	32.9%
EBIT Margin	25.4%	26.5%	25.0%	25.1%	24.3%	23.1%	22.4%	21.6%	21.4%	21.1%	20.8%
Net Margin	24.2%	22.0%	18.5%	20.4%	19.1%	17.3%	17.1%	16.9%	17.3%	17.6%	17.9%
RoAE	14.0%	13.9%	14.1%	14.4%	12.7%	11.1%	11.0%	9.8%	9.5%	9.2%	8.9%
RoAA	6.2%	5.6%	5.8%	6.4%	5.9%	5.3%	5.5%	5.4%	5.6%	5.8%	6.0%
BEP	6.5%	6.8%	7.8%	7.9%	7.6%	7.0%	7.2%	6.9%	6.9%	7.0%	7.0%
RoAIC	6.0%	7.8%	10.0%	9.7%	8.9%	8.3%	9.3%	9.0%	9.2%	9.4%	9.6%
RoACE	7.0%	7.7%	9.2%	9.2%	8.8%	8.1%	8.4%	8.1%	8.3%	8.4%	8.5%
Liquidity											
Current Ratio	2.0x	1.5x	1.8x	1.5x	1.4x	1.6x	1.7x	1.9x	2.0x	2.1x	3.1x
Quick Ratio	2.0x	1.5x	1.8x	1.5x	1.4x	1.6x	1.7x	1.8x	2.0x	2.1x	3.1x
Cash Ratio	0.9x	0.6x	0.9x	0.6x	0.5x	0.6x	0.6x	0.8x	0.9x	1.0x	1.6x
Debt Ratios											
Debt-to-Equity	1.2x	1.1x	1.0x	0.8x	0.8x	0.8x	0.6x	0.5x	0.4x	0.2x	0.2x
Long-Term Debt-to-Equity	1.1x	1.0x	0.9x	0.7x	0.7x	0.7x	0.5x	0.4x	0.3x	0.2x	0.1x
EBITDA Interest Coverage	8.4x	7.2x	5.8x	6.1x	8.7x	8.4x	9.2x	10.7x	13.3x	17.0x	23.6x
Net Debt-to-EBITDA	4.3x	3.7x	2.6x	2.5x	2.8x	2.7x	2.1x	1.5x	0.9x	0.2x	-0.4x
Debt-to-Capital	0.6x	0.5x	0.5x	0.5x	0.5x	0.4x	0.4x	0.3x	0.3x	0.2x	0.1x

Source: Company data, QNB FS estimates

Detailed Financial Statements

Income Statement (In QR mn)	FY2020	FY2021e	FY2022e	FY2023e	FY2024e	FY2025e
Revenue	1,234	1,271	1,380	1,348	1,361	1,382
<i>YoY Growth</i>	1%	3%	9%	-2%	1%	2%
Direct Costs	(683)	(708)	(800)	(780)	(789)	(806)
Gross Profit	551	562	580	568	572	576
<i>Gross Margin</i>	45%	44%	42%	42%	42%	42%
General and Administrative Expenses	(90)	(100)	(108)	(111)	(114)	(116)
EBITDA	461	462	472	457	458	460
<i>YoY Growth</i>	-3%	0%	2%	-3%	0%	0%
<i>EBITDA Margin</i>	37%	36%	34%	34%	34%	33%
Depreciation and Amortization	(161)	(168)	(163)	(166)	(167)	(168)
EBIT	300	294	309	291	291	292
<i>YoY Growth</i>	-2%	-2%	5%	-6%	0%	0%
<i>EBIT Margin</i>	24%	23%	22%	22%	21%	21%
Net Finance Costs and Other Income	(62)	(63)	(59)	(50)	(41)	(34)
PBT	238	231	250	241	250	258
Taxes	(2)	(3)	(3)	(3)	(3)	(3)
Net Income	236	228	247	238	247	255
Minority Interest	0	8	11	11	11	11
Net Income to Equity	236	220	236	227	236	244
<i>YoY Growth</i>	-5%	-7%	7%	-4%	4%	3%
<i>Net Margin</i>	19%	17%	17%	17%	17%	18%
EPS (QR)	0.40	0.38	0.40	0.39	0.40	0.42
DPS (QR)	0.10	0.10	0.11	0.11	0.12	0.13
<i>Payout Ratio</i>	25%	27%	27%	28%	30%	31%

Source: Company data, QNB FS estimates

Detailed Financial Statements

Balance Sheet (In QR mn)	FY2020	FY2021e	FY2022e	FY2023e	FY2024e	FY2025e
Non-Current Assets						
PP&E, WIP & Right of Use Assets	3,109	3,196	3,094	2,989	2,882	2,775
Investment Properties	41	41	41	41	41	41
Intangible Assets & Goodwill	117	117	117	116	116	116
Available-for-Sale Investments/Other	18	18	18	18	18	18
Total Non-Current Assets	3,285	3,372	3,269	3,164	3,057	2,950
Current Assets						
Inventories	12	13	15	15	15	15
Trade and Other Receivables	484	564	612	598	602	613
Bank Balances and Cash	299	356	383	429	507	586
Total Current Assets	794	933	1,010	1,042	1,124	1,214
Total Assets	4,079	4,305	4,279	4,206	4,181	4,164
Total Shareholders' Equity	1,908	2,064	2,235	2,392	2,557	2,724
Non-Controlling interests	(3)	5	16	27	39	50
Non-Current Liabilities						
Lease Liabilities & Others	249	249	260	272	284	295
Loans and Borrowings	1,299	1,366	1,117	899	680	462
Employee Benefits	48	52	56	59	63	67
Total Non-Current Liabilities	1,596	1,667	1,433	1,230	1,027	824
Current Liabilities						
Trade Payables	39	40	46	45	45	46
Loans and Borrowings	290	259	249	219	219	219
Accruals, Provisions & Other Payables	210	233	263	257	259	265
Lease Liabilities	13	12	12	11	11	11
Retention Payable	25	25	25	25	25	25
Total Current Liabilities	578	570	594	556	559	565
Total Liabilities	2,174	2,236	2,028	1,787	1,585	1,389
Total Equity & Liabilities	4,079	4,305	4,279	4,206	4,181	4,164

Source: Company data, QNB FS 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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