

Gulf Warehousing Company (GWCS)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR4.730	Target Price	QR6.100
Implied Upside	29.0%	Old Target Price	QR5.400

Stock Poised for Further Gains as 2H2022 Earnings Grow; Outperform

Earnings acceleration in 2H2022, news catalysts related to the FIFA World Cup Qatar 2022 and emerging details on medium-term growth prospects should act as positive catalysts for GWCS' stock going forward. As we have pointed out previously, the 50% cut in DPS from QR0.20 in 2019 to QR0.10 in 2020/2021, and the resultant near-halving of the payout ratio from 47% in 2019 to 25% and 26% in 2020 and 2021, respectively, has depressed stock price performance. While we do not envision a meaningful increase in DPS medium-term, we do continue to believe GWCS' relative underperformance (up 4.2% YTD primarily fueled by a 18.0% rally from its June lows vs. the QSE Index's YTD increase of 20.3%) could reverse going forward, especially in light of the company's growth catalysts. Near-term, with the Al Wukair Logistics Park project (phase 1) humming along (94% utilization), along with the FIFA World Cup Qatar 2022 leading to growth in logistics/freight, we expect net income to resume its growth track. Earnings should increase 7.3% YoY to QR241.4mn in 2022; this implies a 10.3% growth in net income from QR114.8mn in 1H2022 to QR126.6 in 2H2022. Moreover, phase 2 of Al Wukair has started in earnest with construction expected to be completed in 18 months or by end-2023. We remain conservative on earnings in the post-World Cup year (2023) with EPS projected to decline 6.4% YoY before resuming its growth trajectory in 2024 (up 10.8%) as Al Wukair phase 2 kicks in. In addition, GWCS is in the final stages of two projects (in Oman and the UAE), which should receive the go-ahead soon. While we are awaiting further details and have not included these two projects in our model presently, we do believe they will serve as positive catalysts in the future. Although we are not forecasting a significant uptick in DPS, there could be upside to dividends medium-term after the expected uptick in capex in 2022. **We rate GWCS an Outperform and raise our price target from QR5.400 to QR6.100.**

Highlights

- **GWCS reported in-line 2Q2022 earnings:** GWCS' 2Q2022 net profit of QR57.0mn (5.6% YoY, -1.4% QoQ) was right in-line with our estimate of QR57.3mn (divergence: -0.6%). The company's 2Q2022 top-line came in at QR367.7mn, up 13.1% YoY and 4.7% QoQ. Revenue was also in-line with our forecast of QR358.4mn (difference of 2.6%). Gross margins came in 27.8% vs. 30.7% in 2Q2021 and 29.5% in 1Q2022.
- **We expect 2022 net income of QR241.4mn, which should dip 6.4% to QR226.0mn in 2023 before increasing 10.8% to QR250.3mn in 2024.** We note we are moderately below management's guidance of ~QR250mn in earnings for 2022 given 1H2022 performance. Al Wukair's phase 1, along with the FIFA World Cup Qatar 2022, help drive 2H2022 and 2022 earnings growth. While we expect a fall in 2023 earnings post the World Cup, GWCS' bottom-line should resume its growth trajectory in 2024 as Al Wukair phase 2 starts in 1Q2024. While exact details are still to be disclosed, Al Wukair phase 2 should be similar to phase 1 (112.5k m², 55k pallet positions, 70k m² open yard) but with an additional emphasis on pallet positions instead of open yard. GWCS expects to spend \$350mn in 1H2022 and around \$100mn in early 2023 in capex for phase 2. GWCS could spend another QR200mn in 2023 for its projects in Oman and the UAE but we have not accounted for these projects until more details are revealed.

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

- **We rate GWCS as an Outperform with a price target of QR6.100.** GWCS trades at P/Es of 11.5x and 12.3x for 2022 & 2023, respectively.
- **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

	FY2020	FY2021	FY2022e	FY2023e
Revenue (QR mn)	1,234	1,304	1,548	1,520
Growth	1.0%	5.7%	18.7%	(1.8%)
EPS (QR)	0.40	0.38	0.41	0.39
Growth	(5.4%)	(4.7%)	7.3%	(6.4%)
P/E (x)	11.7x	12.3x	11.5x	12.3x
DPS (QR)	0.10	0.10	0.11	0.11

Source: Company data, QNB FS Research; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	4.730
Dividend Yield (%)	2.1
Bloomberg Ticker	GWCS QD
ADR/GDR Ticker	N/A
Reuters Ticker	GWCS.QA
ISIN	QA000A0KD6H9
Sector*	Transportation
52wk High/52wk Low (QR)	5.140/3.957
3-m Average Volume ('000)	1.0
Mkt. Cap. (\$ bn/QR bn)	0.8/2.8
EV (\$ bn/QR bn)	1.3/4.7
Shares Outstanding (mn)	586.0
FO Limit* (%)	49.0
Current FO* (%)	5.8
1-Year Total Return (%)	(3.8)
Fiscal Year End	December 31

Source: Bloomberg (as of August 17, 2022), *Qatar Exchange (as of August 16, 2022); Note: FO is foreign ownership

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Valuation and Key Ratios

Valuation Metrics

	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
Valuation											
EV/EBITDA	12.9x	11.6x	8.8x	8.9x	9.3x	9.7x	9.2x	9.1x	7.9x	6.9x	6.2x
P/E	13.5x	12.9x	12.2x	11.1x	11.7x	12.3x	11.5x	12.3x	11.1x	10.1x	9.9x
P/CF	6.2x	8.3x	7.5x	8.1x	6.2x	7.9x	6.7x	6.0x	6.3x	5.4x	5.3x
P/FCF	<i>nmf</i>	62.8x	9.7x	16.5x	66.3x	-71.9x	-92.1x	10.7x	7.3x	6.2x	5.9x
P/BV	1.8x	1.8x	1.7x	1.5x	1.5x	1.3x	1.2x	1.2x	1.1x	1.0x	0.9x
Dividend Yield	3.4%	3.6%	4.0%	4.2%	2.1%	2.1%	2.3%	2.3%	2.5%	2.7%	2.7%
FCF Yield	-18.2%	1.6%	10.3%	6.1%	1.5%	-1.4%	-1.1%	9.4%	13.7%	16.2%	16.9%

Source: Company data, QNB FS estimates

Ratio Analysis

	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
Growth (%)											
Revenue	7.8%	15.5%	25.6%	-0.8%	1.0%	5.7%	18.7%	-1.8%	7.4%	3.6%	1.6%
Cash Gross Profit	8.6%	19.4%	22.4%	-1.3%	-4.1%	1.1%	9.5%	-2.1%	6.7%	2.8%	0.4%
EBITDA	11.5%	20.1%	26.5%	-2.7%	-3.4%	-1.7%	7.7%	-3.0%	7.2%	2.6%	-0.1%
EBIT	11.1%	20.3%	18.5%	-0.6%	-2.0%	-3.4%	9.9%	-4.4%	4.0%	3.7%	-0.7%
Net Profit	11.1%	4.8%	5.3%	10.0%	-5.4%	-4.7%	7.3%	-6.4%	10.8%	9.2%	2.7%
Cash Flow Per Share	1033.7%	-25.6%	10.5%	-7.6%	30.1%	-21.2%	18.0%	12.1%	-5.3%	15.8%	3.4%
Free Cash Flow Per Share	<i>nmf</i>	<i>nmf</i>	544.8%	-41.1%	-75.1%	<i>nmf</i>	-21.9%	<i>nmf</i>	46.3%	18.2%	3.9%
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%	42.7%	39.4%	39.3%	39.0%	38.7%	38.3%
EBITDA Margin	38.0%	39.5%	39.8%	39.1%	37.4%	34.8%	31.5%	31.2%	31.1%	30.8%	30.3%
EBIT Margin	25.4%	26.5%	25.0%	25.1%	24.3%	22.2%	20.6%	20.0%	19.4%	19.4%	19.0%
Net Margin	24.2%	22.0%	18.4%	20.4%	19.1%	17.3%	15.6%	14.9%	15.3%	16.2%	16.3%
RoAE	14.0%	13.9%	14.0%	14.4%	12.7%	11.3%	11.2%	9.7%	10.1%	10.2%	9.8%
RoAA	6.2%	5.6%	5.7%	6.4%	5.9%	5.3%	5.4%	5.0%	5.6%	6.2%	6.5%
BEP	6.5%	6.8%	7.8%	7.9%	7.6%	6.9%	7.2%	6.7%	7.0%	7.4%	7.5%
RoAIC	6.0%	7.8%	10.0%	9.7%	8.9%	7.9%	8.3%	8.4%	9.2%	10.1%	10.4%
RoACE	7.0%	7.7%	9.2%	9.2%	8.8%	8.0%	8.3%	7.8%	8.3%	8.9%	9.1%
Liquidity											
Current Ratio	2.0x	1.5x	1.8x	1.5x	1.4x	1.1x	1.4x	1.1x	1.2x	1.3x	2.1x
Quick Ratio	2.0x	1.5x	1.8x	1.5x	1.4x	1.1x	1.4x	1.1x	1.1x	1.2x	2.1x
Cash Ratio	0.9x	0.6x	0.9x	0.6x	0.5x	0.3x	0.2x	0.2x	0.2x	0.4x	0.8x
Debt Ratios											
Debt-to-Equity	1.2x	1.1x	1.0x	0.8x	0.8x	0.8x	0.7x	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	0.5x	0.3x	0.2x	0.2x
EBITDA Interest Coverage	8.4x	7.2x	5.8x	6.1x	8.7x	9.4x	8.9x	8.5x	11.6x	16.0x	22.8x
Net Debt-to-EBITDA	4.3x	3.7x	2.6x	2.5x	2.8x	3.1x	3.1x	2.7x	1.9x	1.2x	0.4x
Debt-to-Capital	0.6x	0.5x	0.5x	0.5x	0.5x	0.4x	0.4x	0.4x	0.3x	0.2x	0.2x

Source: Company data, QNB FS estimates

Detailed Financial Statements

Income Statement (In QR mn)	FY2020	FY2021	FY2022e	FY2023e	FY2024e	FY2025e
Revenue	1,234	1,304	1,548	1,520	1,633	1,692
<i>YoY Growth</i>	1%	6%	19%	-2%	7%	4%
Direct Costs	(683)	(747)	(938)	(923)	(996)	(1,037)
Gross Profit	551	557	610	597	637	655
<i>Gross Margin</i>	45%	43%	39%	39%	39%	39%
General and Administrative Expenses	(90)	(104)	(122)	(124)	(130)	(134)
EBITDA	461	453	488	474	508	521
<i>YoY Growth</i>	-3%	-2%	8%	-3%	7%	3%
<i>EBITDA Margin</i>	37%	35%	32%	31%	31%	31%
Depreciation and Amortization	(161)	(163)	(170)	(169)	(191)	(193)
EBIT	300	290	319	304	317	328
<i>YoY Growth</i>	-2%	-3%	10%	-4%	4%	4%
<i>EBIT Margin</i>	24%	22%	21%	20%	19%	19%
Net Finance Costs and Other Income	(62)	(56)	(64)	(65)	(52)	(41)
PBT	238	234	255	240	264	287
Taxes	(2)	(2)	(3)	(3)	(3)	(3)
Net Income	236	231	252	237	262	285
Minority Interest	0	6	11	11	11	11
Net Income to Equity	236	225	241	226	250	273
<i>YoY Growth</i>	-5%	-5%	7%	-6%	11%	9%
<i>Net Margin</i>	19%	17%	16%	15%	15%	16%
EPS (QR)	0.40	0.38	0.41	0.39	0.43	0.47
DPS (QR)	0.10	0.10	0.11	0.11	0.12	0.13
<i>Payout Ratio</i>	25%	26%	27%	29%	28%	28%

Source: Company data, QNB FS estimates

Detailed Financial Statements

Balance Sheet (In QR mn)	FY2020	FY2021	FY2022e	FY2023e	FY2024e	FY2025e
Non-Current Assets						
PP&E, WIP & Right of Use Assets	3,109	3,326	3,601	3,636	3,504	3,371
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	3,503	3,777	3,812	3,680	3,546
Current Assets						
Inventories	12	14	16	16	17	18
Trade and Other Receivables	484	584	636	583	602	579
Bank Balances and Cash	299	240	130	154	153	240
Total Current Assets	794	838	782	753	772	837
Total Assets	4,079	4,341	4,559	4,565	4,452	4,383
Total Shareholders' Equity	1,908	2,068	2,242	2,397	2,577	2,773
Non-Controlling interests	(3)	15	26	37	48	59
Non-Current Liabilities						
Lease Liabilities & Others	249	223	238	249	261	273
Loans and Borrowings	1,299	1,234	1,450	1,132	839	546
Employee Benefits & Others	48	53	58	62	67	72
Total Non-Current Liabilities	1,596	1,510	1,745	1,444	1,168	892
Current Liabilities						
Trade Payables	39	75	78	77	83	87
Loans and Borrowings	290	409	171	318	293	293
Accruals, Provisions & Other Payables	210	224	257	253	245	241
Lease Liabilities	13	15	14	14	13	13
Retention Payable	25	26	26	26	26	26
Total Current Liabilities	578	748	546	687	660	659
Total Liabilities	2,174	2,258	2,292	2,131	1,827	1,551
Total Equity & Liabilities	4,079	4,341	4,559	4,565	4,452	4,383

Source: Company data, QNB FS estimates

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