

Gulf Warehousing Company (GWCS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR3.357	Target Price	QR4.855
Implied Upside	45.5%		

4Q2023 Earnings Miss On Logistics Weakness & G&A; Stay Accumulate

GWCS reported 2023 results, which despite a bottom-line miss, was mostly unsurprising. The company also increased its DPS by 10% from QR0.10, announcing an in-line DPS of QR0.11 for 2023. However, the yield remains below market at 3.3% and that, along with a 10.2% YoY decline in its 2023 bottom-line, is unlikely to be perceived as a positive catalyst. GWCS should enjoy growth going forward given new projects and an expected easing of its finance charges burden given expected rate cuts. However, the stock continues to suffer from a lack of liquidity, which we feel needs to be addressed. We will update our estimates and rework our price target after we speak to management.

- **4Q2023 earnings misses our estimate by 7.3% despite GM upside** – Quarterly net profit came in at QR47.2mn (-27.9% YoY, -11.1% QoQ), which was 7.3% shy of our estimate of QR50.9mn.
- **4Q2023 top-line of QR372.8mn fell 8.9% YoY but increased 6.6% QoQ as freight forwarding accelerated vs. 3Q2023's lows.** Overall revenue was modestly (1.9%) below our model of QR380.0mn.
- **Logistics held the line sequentially with revenue of QR245.9mn (-12.2% YoY, -0.2% QoQ; 66% of total revenue) but was 8.0% below our optimistic estimate of QR267.4mn.** YoY comparisons remain challenging due to the WC. While we do not have details on the drivers behind the various subdivisions, CL/logistics parks remained stable with warehouse management posting a moderate 1.4% QoQ growth to QR204.5mn (7.4% below estimate). According to the company's 3Q2023 presentation, CL benefited from clients, such as the Supreme Committee, Accor & Qatar Airways, along with 98% occupancy in logistics hubs (excluding Al Wukair with ~92%/56% occupancy in phases 1/2). This has helped offset moribund rental rates and a FIFA-related ~4% throughput fall in contract logistics from 1,336k in 9M2022 to 1,276k in 9M2023.
- **Freight forwarding top-line of QR124.1mn (-1.4% YoY, 24.2% QoQ; 33% of total revenue) exceeded our model of QR109.2mn by 13.6% after missing estimates for the previous two quarters.**
- **4Q2023 gross margin was 31.4% vs. 29.5% in 4Q2022 and 31.7% in 3Q2023.** GM came in above our estimate of 30.3%. 4Q2023 GP of QR117.2mn (-2.9% YoY, 5.9% QoQ) modestly beat our estimate of QR115.0mn by 1.9% despite total D&A of QR55.6mn (21.3% YoY, 9.7% QoQ) exceeding our estimate of QR51.7mn by 7.4%.
- **4Q2023 EBITDA of QR132.6mn (0.1% YoY, 3.2% QoQ) came bang in-line with our model of QR132.4mn.** GWCS also reported an EBITDA margin of 35.6% in 4Q2023 vs. 32.4% in 4Q2022 and 36.7% in 3Q2023; we were expecting an EBITDA margin of 34.9%.
- **G&A expenses of QR40.2mn (18.2% YoY, 22.1% QoQ) exceeded our estimate of QR34.3mn by 17.4% and explains the majority of the earnings miss in 4Q2023.** We note that G&A included QR4.3mn in inventory provisions (not in our model) that contributed significantly to the increase.
- **Finance charges, while in-line with our estimate, continue to bite.** GWCS posted 4Q2023 finance charges of QR27.5mn (55.5% YoY/4.2% QoQ), in-line with our model of QR27.8mn (-1.4% change).
- **Underlying business remains strong with GWCS posting 2023 operating income of QR324.2mn, up 5.0% YoY and EBITDA of QR531.4mn, up 10.5% YoY.** FY2023 net income, however, fell 10.2% YoY to QR215.0mn with finance charges up 86% to QR103.8mn vs. QR55.8mn in 2022. **Announced DPS of QR0.11 is up 10% vs. QR0.10 in 2022 but still represents a below-market yield of 3.3%.**
- **We will adjust our model to factor in 2023 results.** Start-up of new projects, such as Al Wukair phase 2 (July 2023 handover), LVQ phase 6 (chemicals warehouse facility that started in Sep.; 10,000 pallet positions) and Flag Oman (opening announced Jan. 2024; as of 3Q2023 IKEA was the only customer but pipeline was solid), add to the momentum in 2024. Earnings acceleration in 2024 (increasing 27.1% to QR273.4mn based on our existing model) and details on medium-term growth prospects could act as positive catalysts.
- **We rate GWCS as an Accumulate with a price target of QR4.855.** GWCS trades at P/Es of 7.2x and 6.9x for 2024 & 2025, respectively, which is attractive relative to its historical median of 11.7x.
- **For GWCS to rerate, we need a pickup in newsflow along with liquidity.** We note several projects not in our model: (1) **Al Wukair phase 3** – GWCS could move forward, assuming favorable demand for phase 2 (expecting ~90% occupancy by 1Q2024 but phase 2 demand has been below phase 1), which could lead to ~6% EPS acceleration. (2) **Newly-formed subsidiary, GWC Energy**, is targeting the offshore/onshore-integrated shipping, logistics & marine services market in Qatar/GCC and **could benefit from increased NF activity as Qatar expands its LNG capacity from 77 MTPA to 126 MTPA by 2026.** Management is expecting a pickup in 2024 given some vessel delays. GWCS has also bid on a tender with a decision expected 1Q2024. (3) **Expansion outside Qatar**, for e.g., FF in the KSA (with potential to expand into warehousing longer term). **The stock continues to suffer from a lack of liquidity, which needs to be addressed. An uptick in DPS could also be catalyst** given the below-market yield but a significant increase is unlikely.
- **Risks:** LT growth in warehousing demand in Qatar remains uncertain. Receivable collections have been subdued and we await more details on this front. Geopolitical risks cannot be modeled.

Key Financial Data and Estimates

	FY2022	FY2023	FY2024e	FY2025e
Revenue (QR mn)	1,519	1,508	1,723	1,754
<i>Growth</i>	16%	-1%	14%	2%
EPS (QR)	0.41	0.37	0.47	0.49
<i>Growth</i>	7%	-10%	27%	5%
P/E (x)	8.2x	9.1x	7.2x	6.9x
DPS (QR)	0.10	0.10	0.11	0.12

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

Key Data

Current Market Price (QR)	3.357
Dividend Yield (%)	3.3
Bloomberg Ticker	GWCS QD
ADR/GDR Ticker	N/A
Reuters Ticker	GWCS.QA
ISIN	QA000A0KD6H9
Sector*	Transportation
52wk High/52wk Low (QR)	3.975/2.890
3-m Average Volume (mn)	1.0
Mkt. Cap. (\$ bn/QR bn)	0.5/2.0
EV (\$ bn/QR bn)	1.1/4.0
Shares Outstanding (mn)	586.0
FO Limit* (%)	100.0
Current Institutional FO* (%)	3.9
1-Year Total Return (%)	(13.2)
Fiscal Year End	December 31

Source: Bloomberg (as of January 23, 2024), *Qatar Exchange (as of January 23, 2024); Note: FO is foreign ownership

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QNB FS 4Q2023 Estimates and Comparisons

Income Statement (QR 000)	4Q2022	3Q2023	4Q2023	4Q2023e	A Vs. E	YoY	QoQ
Revenue	409,203.481	349,555.215	372,774.459	380,038.258	-1.9%	-8.9%	6.6%
YoY	14.9%	-10.5%	-8.9%	-7.1%			
QoQ	4.8%	-6.3%	6.6%	8.7%			
Logistics	280,066.640	246,297.234	245,909.801	267,414.467	-8.0%	-12.2%	-0.2%
Warehouse Management Services	237,502.510	201,595.555	204,482.385	220,935.249	-7.4%	-13.9%	1.4%
Transport Services	9,667.334	12,921.736	10,028.883	13,436.210	-25.4%	3.7%	-22.4%
Relocation Services (IMRS)	17,566.429	14,859.246	13,966.547	15,464.969	-9.7%	-20.5%	-6.0%
Records Management Services	15,330.367	16,920.697	17,431.986	17,578.039	-0.8%	13.7%	3.0%
Freight Forwarding	125,887.550	99,849.836	124,063.272	109,214.368	13.6%	-1.4%	24.2%
Freight Forwarding Services	111,473.417	89,270.428	113,187.208	95,488.731	18.5%	1.5%	26.8%
Courier Services	14,414.133	10,579.408	10,876.064	13,725.637	-20.8%	-24.5%	2.8%
Rental Income From Investment Property	2,445.444	2,452.849	2,452.848	2,452.849	0.0%	0.3%	0.0%
Others	803.847	955.296	348.538	956.574	-63.6%	-56.6%	-63.5%
Direct Costs	(288,482.301)	(238,834.413)	(255,538.001)	(265,023.784)	-3.6%	-11.4%	7.0%
Gross Profit	120,721.180	110,720.802	117,236.458	115,014.473	1.9%	-2.9%	5.9%
General & Administration expenses	(34,046.731)	(32,952.636)	(40,243.946)	(34,293.065)	17.4%	18.2%	22.1%
Operating Profit	86,674.449	77,768.166	76,992.512	80,721.408	-4.6%	-11.2%	-1.0%
Finance Income	11.376	1,043.795	1,344.972	1,490.850	-9.8%	11722.9%	28.9%
Finance Costs	(17,661.430)	(26,341.865)	(27,458.047)	(27,845.015)	-1.4%	55.5%	4.2%
Other Income	558.927	2,125.188	399.303	(1,307.520)	-130.5%	-28.6%	-81.2%
Net Impairment Loss On Trade Receivables	(947.000)	(599.000)	(1,873.144)	(691.500)	170.9%	97.8%	212.7%
EBT	68,636.322	53,996.284	49,405.596	52,368.224	-5.7%	-28.0%	-8.5%
Taxes	(703.814)	(171.441)	(681.730)	(284.948)	139.2%	-3.1%	297.6%
Net Income	67,932.508	53,824.843	48,723.866	52,083.275	-6.5%	-28.3%	-9.5%
YoY	9.1%	-12.8%	-28.3%	-23.3%			
QoQ	10.1%	-1.4%	-9.5%	-3.2%			
Non-Controlling Interest	2,550.552	770.789	1,553.167	1,174.730	32.2%	-39.1%	101.5%
Net Income to Equity	65,381.956	53,054.054	47,170.699	50,908.546	-7.3%	-27.9%	-11.1%
YoY	8.2%	-10.7%	-27.9%	-22.1%			
QoQ	10.1%	-0.5%	-11.1%	-4.0%			
NM	16.0%	15.2%	12.7%	13.4%			
EPS (QR)	0.11	0.09	0.08	0.09	-7.3%	-27.9%	-11.1%
Provision for Impairment of Trade Receivables	947.000	599.000	1,873.144	691.500	170.9%	97.8%	212.7%
Depreciation & Amortization	45,806.353	50,650.342	55,566.076	51,727.177	7.4%	21.3%	9.7%
EBITDA	132,480.802	128,418.508	132,558.588	132,448.585	0.1%	0.1%	3.2%
GM	29.5%	31.7%	31.4%	30.3%			
G&A	8.3%	9.4%	10.8%	9.0%			
EBIT	21.2%	22.2%	20.7%	21.2%			
EBITDA	32.4%	36.7%	35.6%	34.9%			

Source: Company data, QNB FS Research

QNB FS 2023 Estimates and Comparisons

Income Statement (QR 000)	2022	2023	2023e	A Vs. E	YoY
Revenue	1,518,900.773	1,508,304.846	1,515,568.645	-0.5%	-0.7%
YoY		-0.7%	-0.2%		
QoQ					
Logistics	988,208.007	1,006,297.401	1,027,802.067	-2.1%	1.8%
<i>Warehouse Management Services</i>	826,216.269	834,924.473	851,377.337	-1.9%	1.1%
<i>Transport Services</i>	33,447.584	44,222.033	47,629.360	-7.2%	32.2%
<i>Relocation Services (IMRS)</i>	64,497.948	62,290.049	63,788.471	-2.3%	-3.4%
<i>Records Management Services</i>	64,046.206	64,860.846	65,006.899	-0.2%	1.3%
Freight Forwarding	518,094.864	489,266.461	474,417.557	3.1%	-5.6%
<i>Freight Forwarding Services</i>	473,744.928	445,016.402	427,317.925	4.1%	-6.1%
<i>Courier Services</i>	44,349.936	44,250.059	47,099.632	-6.1%	-0.2%
Rental Income From Investment Property	9,781.776	9,811.394	9,811.395	0.0%	0.3%
Others	2,816.126	2,929.590	3,537.626	-17.2%	4.0%
Direct Costs	(1,082,062.137)	(1,045,308.674)	(1,054,794.457)	-0.9%	-3.4%
Gross Profit	436,838.636	462,996.172	460,774.187	0.5%	6.0%
General & Administration expenses	(128,095.882)	(138,804.804)	(132,853.923)	4.5%	8.4%
Operating Profit	308,742.754	324,191.368	327,920.264	-1.1%	5.0%
Finance Income	218.957	2,525.397	2,671.275	-5.5%	1053.4%
Finance Costs	(55,820.901)	(103,808.350)	(104,195.318)	-0.4%	86.0%
Other Income	1,207.346	2,764.301	1,057.478	161.4%	129.0%
Net Impairment Loss On Trade Receivables	(2,730.500)	(3,912.144)	(2,730.500)	43.3%	43.3%
EBT	251,617.656	221,760.572	224,723.200	-1.3%	-11.9%
Taxes	(2,372.741)	(1,619.556)	(1,222.774)	32.4%	-31.7%
Net Income	249,244.915	220,141.016	223,500.425	-1.5%	-11.7%
YoY	7.7%	-11.7%	-10.3%		
QoQ					
Non-Controlling Interest	9,661.459	5,098.203	4,719.766	8.0%	-47.2%
Net Income to Equity	239,583.456	215,042.813	218,780.660	-1.7%	-10.2%
YoY	6.5%	-10.2%	-8.7%		
QoQ					
NM	15.8%	14.3%	14.4%		
EPS (QR)	0.41	0.37	0.37	-1.7%	-10.2%
Provision for Impairment of Trade Receivables	2,730.500	3,912.144	2,730.500	43.3%	43.3%
Depreciation & Amortization	172,025.919	207,252.434	203,413.535	1.9%	20.5%
EBITDA	480,768.673	531,443.802	531,333.799	0.0%	10.5%
<i>GM</i>	28.8%	30.7%	30.4%		
<i>G&A</i>	8.4%	9.2%	8.8%		
<i>EBIT</i>	20.3%	21.5%	21.6%		
<i>EBITDA</i>	31.7%	35.2%	35.1%		

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023	FY2024e	FY2025e	FY2026e	FY2027e
Revenue	1,519	1,508	1,723	1,754	1,778	1,803
<i>YoY Growth</i>	16%	-1%	14%	2%	1%	1%
Direct Costs, Excluding D&A	(919)	(850)	(1,020)	(1,047)	(1,072)	(1,098)
Gross Profit	600	658	704	707	706	706
<i>Gross Margin</i>	39%	44%	41%	40%	40%	39%
General & Admin. Expenses, Excl. D&A	(119)	(127)	(126)	(130)	(133)	(137)
EBITDA	481	531	578	577	573	569
<i>YoY Growth</i>	6%	11%	9%	0%	-1%	-1%
<i>EBITDA Margin</i>	32%	35%	34%	33%	32%	32%
Depreciation and Amortization	(172)	(207)	(210)	(214)	(218)	(222)
EBIT	309	324	368	363	355	347
<i>YoY Growth</i>	7%	5%	14%	-1%	-2%	-2%
<i>EBIT Margin</i>	20%	21%	21%	21%	20%	19%
Net Finance Costs and Other Income	(57)	(102)	(86)	(67)	(53)	(43)
PBT	252	222	282	296	302	304
Taxes	(2)	(2)	(2)	(2)	(2)	(2)
Net Income	249	220	280	294	300	302
Minority Interest	10	5	7	7	7	8
Net Income to Equity	240	215	273	286	293	294
<i>YoY Growth</i>	7%	-10%	27%	5%	2%	1%
<i>Net Margin</i>	16%	14%	16%	16%	16%	16%
EPS (QR)	0.41	0.37	0.47	0.49	0.50	0.50
DPS (QR)	0.10	0.11	0.11	0.12	0.13	0.14
<i>Payout Ratio</i>	24%	30%	24%	25%	26%	28%

Source: Company data, QNB FS estimates

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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