

Gulf Warehousing Company (GWCS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR3.358	Target Price	QR3.900
Implied Upside	16.1%	Old Target Price	QR4.025

In-Line 3Q2024 Despite Margin Pressure; Revising Estimates/TP; Accumulate

GWCS reported in-line earnings for 3Q2024 despite a significant top-line beat from its lower-margin freight forwarding business. With 9M2024 results in the bag and in view of the overall pricing/occupancy weakness still ongoing in Bu Sulba, we are lowering our estimates. Our 2024 earnings/EPs estimate of QR196.8mn/QR0.34 is 11.2% lower than our previous estimate and implies a YoY earnings decline of -8%. 2025 should see a resumption in earnings growth primarily as finance charges continue to come down (for more details, see page 2). GWCS should enjoy growth longer term given new projects and an expected easing of its finance charges burden. However, the stock continues to suffer from a lack of liquidity and a below-market dividend yield of 3.3%, which we feel needs to be addressed. We maintain our Accumulate rating but lower our target price from QR4.025 to QR3.900.

Highlights

- 3Q2024 earnings comes in-line with our estimate** –net profit came in at QR467.7mn (-12.0% YoY, -5.7% QoQ), which was in-line/modestly below our estimate of QR47.2mn (-1.1% differential). While revenue, especially from FF, was up nicely YoY/QoQ, margins came under pressure. YoY, finance charges also took a bite out of earnings; QoQ, a one-off other income item of QR8.6mn in 2Q2024 cramped comparisons.
- Top-line of QR443.2mn bounced 26.8% YoY and 18.9% QoQ given a significant uptick in freight forwarding along with a decent logistics beat.** Logistics performance was driven by strength in warehouse management services (some progress seen in Bu Sulba despite an overall challenging environment) while FF continued to accelerate vs. 3Q2023's lows. Overall revenue was 17.1% above our model of QR378.5mn.
- Logistics revenue of QR252.2mn (3.2% YoY, 6.3% QoQ; 57% of total revenue) enjoyed a decent recovery and was 6.5% above our estimate of QR236.8mn.** Warehouse management services grew 6.2% YoY/9.5% QoQ to QR214.0mn (10.3% above our estimate of QR194.0mn). Our sense is that logistics hubs continue to remain soft with Bu Sulba (which is targeted at SMEs) facing pricing/occupancy challenges, especially on smaller units (Bu Sulba had 75 units/44,000 m² vacant as of 2Q2024 and while occupancy likely improved modestly QoQ, pricing pressure continues to be the norm). Overall logistics hubs' occupancy levels could have improved slightly vs. the 81% reported in 2Q2024 but probably remain well below the 86% posted in 3Q2023. Contract logistics, on the other hand, could have contributed positively during the quarter.
- FF top-line of QR189.0mn (85.6% YoY, 42.1% QoQ; 43% of total revenue) exceeded our model of QR139.5mn by 35.3%.** All of the growth in FF was driven by FF services that grew to QR179.3mn (96.4% YoY, 44.7% QoQ) and topped our estimate of QR128.2mn by 39.8%. GWCS continues to enjoy growth related to the NF project and we surmise that O&G break bulk shipments helped growth this quarter.
- Gross margins keep softening given the higher mix of lower-margin FF revenue and pricing pressure in logistics hubs.** 3Q2024 GM was 24.9% vs. 31.7% in 3Q2023 & 29.6% in 2Q2024. GM came in below our model of 30.5%. 3Q2024 GP of QR110.2mn (-0.5% YoY, -0.2% QoQ) fell below our forecast of QR115.6mn by 4.7%.
- 3Q2024 EBITDA of QR137.9mn (7.4% YoY, flat QoQ) also missed our QR142.0mn forecast by 2.9%.** EBITDA margin of 31.1% in 3Q2024 fell below 36.7% (3Q2023)/37.0% (2Q2024); we were expecting a 37.5% margin.
- Finance charges starting to reflect progress made by management in lowering the company's funding costs.** GWCS posted 3Q2024 finance charges (including finance costs on lease liabilities) of QR31.7mn (20.2% YoY/-9.8% QoQ), which came in 1.0% below our model of QR32.0mn. As we have pointed out before, in 2H2024, management negotiated a reduction in the cost of funding by almost 75 basis points. We believe a month or so in 3Q2024 reflected this lower rate, which bodes well for 4Q2024/2025. Total debt fell 6.2% YTD to QR1.9bn in 3Q2024 vs. QR2.0bn in end-2023 due to scheduled repayment of loans.

Catalysts

- We note several projects not in our model: (1) Al Wukair phase 3** – GWCS could move forward and this could lead to ~6% EPS acceleration. However, the demand outlook remains soft with GWCS facing pricing/occupancy challenges, especially on smaller units from private operators (Bu Sulba had 75 units/44,000 m² vacant as of 2Q2024 and while customers are being incentivized with free months, management only expects moderate improvement by YE2024). **(2) 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 142 MTPA by 2030.** Despite the nice 3Q2024 bounce in O&G FF, there could be further upside given persistent vessel delays. GWCS is also building a 15,000 m² facility in Ras Laffan (Dec. 2024 completion) to serve EPC contractors for the NF project. **(3) Regional growth**, for e.g., FF in the KSA (with scope to expand into warehousing longer term).

Recommendation, Valuation and Risks

- We rate GWCS an Accumulate with a price target of QR3.900.** GWCS trades at P/Es of 10.0x and 9.9x for 2024 & 2025, respectively, which is attractive relative to its historical mean of ~11x.
- Risks:** LT warehousing demand growth in Qatar is uncertain. Receivable collections have been subdued. Geopolitical risks cannot be modeled.

Key Financial Data and Estimates

	FY2022	FY2023	FY2024e	FY2025e
Revenue (QR mn)	1,519	1,508	1,640	1,806
EPS (QR)	0.41	0.37	0.34	0.34
Growth	7%	-10%	-8%	1%
P/E (x)	8.2x	9.2x	10.0x	9.9x
DPS (QR)	0.10	0.11	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)	3.358
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)	3.785/2.890
3-m Average Volume (mn)	0.6
Mkt. Cap. (\$ bn/QR bn)	0.5/1.9
EV (\$ bn/QR bn)	1.1/3.9
Shares Outstanding (mn)	586.0
FO Limit* (%)	100.0
Current Institutional FO* (%)	5.6
1-Year Total Return (%)	15.9
Fiscal Year End	December 31

Source: Bloomberg (as of October 23, 2024), *Qatar Exchange (as of October 22, 2024); Note: FO is foreign ownership

Saugata Sarkar, CFA, CAIA
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

QNB FS 3Q2024 Estimates and Comparisons

Income Statement (QR 000)	3Q2023	2Q2024	3Q2024	3Q2024e	A Vs. E	YoY	QoQ
Revenue	349,555.215	372,606.327	443,155.174	378,527.042	17.1%	26.8%	18.9%
YoY	-10.5%	-0.2%	26.8%	8.3%			
QoQ	-6.3%	-0.8%	18.9%	1.6%			
Logistics	244,295.334	237,217.579	252,216.783	236,843.175	6.5%	3.2%	6.3%
Warehouse Management Services	201,595.555	195,473.217	214,015.947	194,007.168	10.3%	6.2%	9.5%
Transport Services	12,921.736	10,434.023	9,051.755	10,693.726	-15.4%	-29.9%	-13.2%
Fine Arts	12,857.346	16,205.376	12,811.330	16,386.698	-21.8%	-0.4%	-20.9%
Records Management Services	16,920.697	15,104.963	16,337.751	15,755.583	3.7%	-3.4%	8.2%
Freight Forwarding	101,851.736	133,017.393	189,000.999	139,283.799	35.7%	85.6%	42.1%
Freight Forwarding Services	91,272.328	123,879.237	179,294.355	128,241.520	39.8%	96.4%	44.7%
Courier Services	10,579.408	9,138.156	9,706.644	11,042.279	-12.1%	-8.2%	6.2%
Rental Income From Investment Property	2,452.849	1,441.498	1,441.497	1,441.498	0.0%	-41.2%	0.0%
Others	955.296	929.857	495.895	958.569	-48.3%	-48.1%	-46.7%
Direct Costs	(238,834.413)	(262,283.239)	(333,002.658)	(262,896.929)	26.7%	39.4%	27.0%
Gross Profit	110,720.802	110,323.088	110,152.516	115,630.112	-4.7%	-0.5%	-0.2%
General & Administration expenses	(32,952.636)	(32,615.297)	(31,916.747)	(34,846.783)	-8.4%	-3.1%	-2.1%
Amortization of Intangible Assets							
Operating Profit	77,768.166	77,707.791	78,235.769	80,783.329	-3.2%	0.6%	0.7%
Finance Income	1,043.795	398.146	720.448	381.026	89.1%	-31.0%	81.0%
Finance Costs	(26,341.865)	(35,102.261)	(31,675.578)	(32,006.242)	-1.0%	20.2%	-9.8%
Other Income	2,125.188	8,619.146	1,449.548	128.728	1026.1%	-31.8%	-83.2%
Net Impairment Loss On Trade Receivables	(599.000)	(375.000)	(465.000)	(375.000)	24.0%	-22.4%	24.0%
EBT	53,996.284	51,247.822	48,265.187	48,911.842	-1.3%	-10.6%	-5.8%
Taxes	(171.441)	(1,261.957)	(764.965)	(1,217.817)	-37.2%	346.2%	-39.4%
Net Income	53,824.843	49,985.865	47,500.222	47,694.024	-0.4%	-11.8%	-5.0%
YoY	-12.8%	-8.4%	-11.8%	-11.4%			
QoQ	-1.4%	-2.7%	-5.0%	-4.6%			
Non-Controlling Interest	770.789	513.736	832.000	489.752	69.9%	7.9%	62.0%
Net Income to Equity	53,054.054	49,472.129	46,668.222	47,204.272	-1.1%	-12.0%	-5.7%
YoY	-10.7%	-7.2%	-12.0%	-11.0%			
QoQ	-0.5%	-2.8%	-5.7%	-4.6%			
NM	15.2%	13.3%	10.5%	12.5%			
EPS (QR)	0.091	0.084	0.080	0.081	-1.1%	-12.0%	-5.7%
Provision for Impairment of Trade Receivables	599.000	375.000	465.000	375.000	24.0%	-22.4%	24.0%
Depreciation & Amortization	50,650.342	60,212.198	59,666.520	61,168.970	-2.5%	17.8%	-0.9%
EBITDA	128,418.508	137,919.989	137,902.289	141,952.299	-2.9%	7.4%	0.0%
GM	31.7%	29.6%	24.9%	30.5%			
G&A	9.4%	8.8%	7.2%	9.2%			
EBIT	22.2%	20.9%	17.7%	21.3%			
EBITDA	36.7%	37.0%	31.1%	37.5%			

Source: Company data, QNB FS Research

Estimate Revisions

With 9M2024 results in the bag and in view of the overall pricing/occupancy weakness still ongoing in Bu Sulba, we are lowering our estimates. Our 2024 earnings/EPs estimate of QR196.8mn/QR0.34 is 11.2% lower than our previous estimate and implies a YoY earnings decline of ~8%. 2025 should see a resumption in earnings growth primarily as finance charges continue to come down. Our revenue forecasts go up given the strength seen in O&G-related freight forwarding. However, FF revenue is low-margin in nature, causing a further drop in our margin assumptions.

QNB FS Estimates Revisions

In QR Millions	Current			Previous			Current			Previous		
	2024	2024	▲	2025	2025	▲	2026	2026	▲	2026	2026	▲
Revenue	1,639.5	1,553.6	5.5%	1,806.3	1,617.6	11.7%	1,862.4	1,677.8	11.0%			
Gross Profit	678.1	718.3	-5.6%	677.3	720.1	-5.9%	706.2	723.4	-2.4%			
Gross Margin	41.4%	46.2%		37.5%	44.5%		37.9%	43.1%				
EBITDA	562.8	597.7	-5.8%	558.2	595.4	-6.3%	582.8	594.3	-1.9%			
EBITDA Margin	34.3%	38.5%		30.9%	36.8%		31.3%	35.4%				
Depreciation & Amortization	(239.9)	(233.2)	2.9%	(240.4)	(235.9)	1.9%	(240.8)	(238.0)	1.2%			
EBIT	322.9	364.5	-11.4%	317.8	359.6	-11.6%	342.0	356.3	-4.0%			
EBIT Margin	19.7%	23.5%		17.6%	22.2%		18.4%	21.2%				
Interest Expense	(124.4)	(134.2)	-7.3%	(105.7)	(113.4)	-6.8%	(86.2)	(93.7)	-8.0%			
Net Income	196.8	221.5	-11.2%	199.5	237.1	-15.8%	241.8	253.2	-4.5%			
Net Margin	12.0%	14.3%		11.0%	14.7%		13.0%	15.1%				

Source: Company data, QNB FS estimates

Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023	FY2024e	FY2025e	FY2026e
Revenue	1,519	1,508	1,640	1,806	1,862
<i>YoY Growth</i>	16%	-1%	9%	10%	3%
Direct Costs, Excluding D&A	(919)	(850)	(961)	(1,129)	(1,156)
Gross Profit	600	658	678	677	706
<i>Gross Margin</i>	39%	44%	41%	38%	38%
General & Admin. Expenses, Excl. D&A	(119)	(127)	(115)	(119)	(123)
EBITDA	481	531	563	558	583
<i>YoY Growth</i>	6%	11%	6%	-1%	4%
<i>EBITDA Margin</i>	32%	35%	34%	31%	31%
Depreciation and Amortization	(172)	(207)	(240)	(240)	(241)
EBIT	309	324	323	318	342
<i>YoY Growth</i>	7%	5%	0%	-2%	8%
<i>EBIT Margin</i>	20%	21%	20%	18%	18%
Net Finance Costs and Other Income	(57)	(102)	(120)	(112)	(93)
PBT	252	222	203	206	249
Taxes	(2)	(2)	(3)	(3)	(4)
Net Income	249	220	200	202	245
Minority Interest	10	5	3	3	3
Net Income to Equity	240	215	197	200	242
<i>YoY Growth</i>	7%	-10%	-8%	1%	21%
<i>Net Margin</i>	16%	14%	12%	11%	13%
EPS (QR)	0.41	0.37	0.34	0.34	0.41
DPS (QR)	0.10	0.11	0.11	0.12	0.13
<i>Payout Ratio</i>	24%	30%	33%	35%	32%

Source: Company data, QNB FS estimates

Detailed Financial Statements

Balance Sheet (In QR mn)	FY2022	FY2023	FY2024e	FY2025e	FY2026e
Non-Current Assets					
PP&E, WIP & Right of Use Assets	3,596	4,066	3,952	3,837	3,723
Investment Properties	41	41	41	41	41
Intangible Assets & Goodwill	117	121	119	117	116
Available-for-Sale Investments/Other	18	18	18	18	18
Total Non-Current Assets	3,772	4,247	4,131	4,014	3,898
Current Assets					
Inventories	16	11	8	9	10
Trade and Other Receivables	748	659	676	747	770
Bank Balances and Cash	238	280	231	311	418
Total Current Assets	1,002	950	916	1,068	1,198
Total Assets	4,774	5,197	5,046	5,082	5,096
Total Shareholders' Equity					
Non-Controlling interests	12	20	23	26	29
Non-Current Liabilities					
Lease Liabilities & Others	208	227	236	253	270
Loans and Borrowings	1,269	1,453	1,264	1,152	1,013
Employee Benefits & Others	58	60	59	61	63
Total Non-Current Liabilities	1,535	1,741	1,560	1,466	1,347
Current Liabilities					
Trade Payables	95	87	87	102	105
Loans and Borrowings	523	564	562	500	456
Accruals, Provisions & Other Payables	351	348	250	294	301
Lease Liabilities	11	16	16	15	14
Retention Payable	15	39	39	39	39
Total Current Liabilities	996	1,053	954	950	915
Total Liabilities	2,531	2,794	2,513	2,416	2,262
Total Equity & Liabilities	4,774	5,197	5,046	5,082	5,096

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

Contacts

QNB Financial Services Co. W.L.L.
 Contact Center: (+974) 4476 6666
info@qnbfs.com.qa
 Doha, Qatar

Saugata Sarkar, CFA, CAIA
 Head of Research
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
 Senior Research Analyst
shahan.keushgerian@qnbfs.com.qa

Phibion Makuwerere, CFA
 Senior Research Analyst
phibion.makuwerere@qnbfs.com.qa

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