

Gulf Warehousing Company (GWCS)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR42.51	Current Target Price	QR51.00
Implied Upside	20.0%		

Revising Estimates; Changing to Accumulate W/ Unchanged QR51 PT

We are tweaking our estimates after GWCS' strong 4Q2018 results – our overall estimate changes are modest and we retain our price target of QR51. GWCS stock has appreciated around 4% since our [preview report](#) driven by the company's [results announcement](#) and proposed dividend increase. Given the stock's increase, we change our rating from Outperform to Accumulate. We retain our bullish investment thesis on GWCS – the company has withstood the blockade well with its freight forwarding segment showing significant growth in 2018; the company's logistics business also remains robust driven by contract logistics and increasing occupancy in Bu Sulba. Growth post Bu Sulba (~90% occupancy) will decline, but as we had flagged previously, GWCS should start generating substantial FCF with FCF yield increasing from 1.8% in 2017 to 11.1% in 2018, reaching 18.9% in 2023. Dividend yield of 4.5% for 2018 should grow to 6.6% by 2023. With major capex already done, there could be upside to dividends medium-term.

Highlights

- **GWCS posts 4Q2018 revenue/EBITDA/EPS of QR311.4mn/QR126.2mn/QR1.09 vs. our estimates of QR295.1mn/QR115.7mn/QR1.00:** Revenue grew 8.8% YoY/4.2% QoQ (+5.5% vs. QNB FS est.); EBITDA increased 20.8% YoY/9.0% QoQ (+9.1% vs. QNB FS est.); EPS rose 9.3% YoY/10.6% QoQ (+8.3% vs. QNB FS est.). The company's gross revenue reached QR1.23bn in end-2018 in comparison with QR981.4mn in FY2017, while EPS increased to QR4.04 in FY2018 from QR3.68 in FY2017. In FY2018, GWCS posted net profit of QR236.8mn, up 9.9% YoY. The revenue beat, along with higher margins as the mix shifted away from freight forwarding to the higher margin logistics segment, helped drive the growth in the bottom-line. Overall, GWCS reported modest upside to our estimates, something we had anticipated in our [preview alert](#). GWCS' board also recommended a 12% increase to QR1.90 DPS for 2018 vs. QR1.70 in 2017. While we were modeling QR1.80 DPS for 2018, we had alluded to the fact that QR1.90 was also possible. *For more details, please see page 2.*
- **For 2019, we see modest top-line growth along with a 5% rise in earnings.** We have lowered our 2019 revenue/EPS estimates by 1% from QR1.27bn/QR4.26 to QR1.26bn/QR4.23. This implies a change of our 2019 EPS growth estimate from 8% previously to 5%. Given the better-than-expected earnings performance in 2018, we have chosen to be somewhat conservative in our future projections. We note our EPS growth estimate is below management guidance of high-single digits. *For a comparison of our previous vs. new estimates, please see page 2.*

Catalysts

- **Newsflow on new projects:** (1) The Al Asmakh logistics park management agreement could add to LT revenue; moreover, Ras Abu Fontas could add 8k SQM to warehouse space by 2020. (2) Corporate restructurings could create boost outsourced logistics solutions. (3) 4PL remains a growth area. (4) International/regional expansion could diversify operations.

Recommendation, Valuation and Risks

- **Recommendation and valuation:** We rate GWCS as an Accumulate with a price target of QR51. Stock trades at P/E of 10.1x and 9.2x for 2019 & 2020, respectively.
- **Risks:** include low occupancy in Bu Sulba and customer retention challenges in LVQ/Bu Sulba. Top-line growth after 2018 is potentially capped given the upcoming mega logistics project (only open to Qatari individuals/100%-Qatari owned companies) in south Qatar.

Key Financial Data and Estimates

	FY2017	FY2018	FY2019e	FY2020e
Revenue (QR mn)	981	1,232	1,263	1,306
<i>Growth</i>	<i>16%</i>	<i>26%</i>	<i>2%</i>	<i>3%</i>
EBITDA (QR mn)	388	471	477	496
<i>Growth</i>	<i>20%</i>	<i>21%</i>	<i>1%</i>	<i>4%</i>
Net Income (QR mn)	215	237	248	272
EPS (QR)	3.68	4.04	4.23	4.64
<i>Growth</i>	<i>5%</i>	<i>10%</i>	<i>5%</i>	<i>10%</i>
P/E (x)	11.6x	10.5x	10.1x	9.2x
DPS (QR)	1.70	1.90	2.00	2.20
<i>Dividend Yield</i>	<i>4.0%</i>	<i>4.5%</i>	<i>4.7%</i>	<i>5.2%</i>
ROE	13.7%	14.1%	13.8%	14.0%

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)	45.00/35.70
3-m Average Volume ('000)	37.8
Mkt. Cap. (\$ bn/QR bn)	0.7/2.5
EV (\$ bn/QR bn)	1.0/3.7
Shares Outstanding (mn)	58.6
FO Limit* (%)	49.0
Current FO* (%)	26.9
1-Year Total Return (%)	3.2
Fiscal Year End	Dec. 31

Source: Bloomberg (as of January 28, 2019), *Qatar Exchange (as of January 28, 2019); Note: FO is foreign ownership

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

4Q2018/2018 Actual vs. Estimates

	4Q2018	4Q2018e	4Q2017	3Q2018	A Vs. E	YoY	QoQ	2018	2018e	2017	A Vs. E	YoY
Revenue	311.37	295.14	286.24	298.77	5.5%	8.8%	4.2%	1,232.20	1,215.98	981.36	1.3%	25.6%
Gross Profit	114.33	101.63	111.70	100.95	12.5%	2.4%	13.3%	417.96	405.27	364.36	3.1%	14.7%
EBITDA	126.21	115.68	104.50	115.84	9.1%	20.8%	9.0%	471.05	460.51	373.42	2.3%	26.1%
Net Income to Equity	63.60	58.74	58.20	57.49	8.3%	9.3%	10.6%	236.76	231.89	215.46	2.1%	9.9%
EPS	1.09	1.00	0.99	0.98	8.3%	9.3%	10.6%	4.04	3.96	3.68	2.1%	9.9%
DPS								1.90	1.80	1.70	5.6%	11.8%
Gross Margin	36.7%	34.4%	39.0%	33.8%				33.9%	33.3%	37.1%		
EBITDA Margin	40.5%	39.2%	36.5%	38.8%				38.2%	37.9%	38.1%		
Net Margin	20.4%	19.9%	20.3%	19.2%				19.2%	19.1%	22.0%		

Source: Company data, QNB FS estimates

Estimate Changes

	2019e	2020e	2021e	2022e	2023e
Revenue	1,263	1,306	1,353	1,383	1,392
Revenue - Previous	1,270	1,316	1,406	1,447	1,476
Change Vs. Previous	-1%	-1%	-4%	-4%	-6%
Growth	2%	3%	4%	2%	1%
NI	248	272	296	316	331
NI - Previous	250	269	298	317	334
Change Vs. Previous	-1%	1%	-1%	0%	-1%
Growth	5%	10%	9%	7%	5%
EPS	4.23	4.64	5.06	5.40	5.65
EPS - Previous	4.26	4.59	5.09	5.41	5.69
Change Vs. Previous	-1%	1%	-1%	0%	-1%
Growth	5%	10%	9%	7%	5%
DPS	2.00	2.20	2.40	2.60	2.80
DPS - Previous	2.00	2.10	2.30	2.45	2.60
Change Vs. Previous	0%	5%	4%	6%	8%
Growth	5%	10%	9%	8%	8%

Source: Company data, QNB FS estimates

Valuation Metrics

	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Valuation								
EV/EBITDA	12.0x	10.1x	8.0x	7.4x	6.5x	5.7x	5.0x	4.4x
P/E	12.1x	11.6x	10.5x	10.1x	9.2x	8.4x	7.9x	7.5x
P/CF	5.5x	7.4x	6.9x	6.1x	5.6x	5.3x	5.0x	4.8x
P/BV	1.6x	1.5x	1.4x	1.3x	1.2x	1.1x	1.1x	1.0x
Dividend Yield	3.8%	4.0%	4.5%	4.7%	5.2%	5.6%	6.1%	6.6%
FCF Yield	-20.3%	1.8%	11.1%	13.8%	15.8%	16.9%	18.2%	18.9%

Source: Bloomberg, QNB FS estimates

Ratio Analysis

	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Growth (%)								
Revenue	7.8%	15.5%	25.6%	2.5%	3.4%	3.5%	2.3%	0.7%
Cash Gross Profit	8.6%	17.2%	18.6%	1.3%	3.4%	3.3%	2.1%	0.6%
EBITDA	11.5%	20.1%	21.3%	1.4%	3.9%	3.7%	2.3%	0.6%
EBIT	11.1%	20.3%	17.3%	1.2%	3.7%	3.5%	1.9%	0.0%
Net Profit	11.1%	4.8%	9.9%	4.6%	9.7%	9.0%	6.8%	4.6%
Cash Flow Per Share	1033.7%	-25.6%	8.3%	12.5%	8.3%	6.4%	6.6%	3.5%
Free Cash Flow Per Share	nmf	nmf	527.5%	23.9%	14.5%	7.1%	7.4%	3.9%

Profitability (%)

Gross Margin	46.9%	47.5%	44.9%	44.4%	44.4%	44.3%	44.2%	44.2%
EBITDA Margin	38.0%	39.5%	38.2%	37.8%	38.0%	38.0%	38.1%	38.0%
EBIT Margin	25.4%	26.5%	24.8%	24.4%	24.5%	24.5%	24.4%	24.2%
Net Margin	24.2%	22.0%	19.2%	19.6%	20.8%	21.9%	22.9%	23.8%
RoAE	14.0%	13.7%	14.1%	13.8%	14.0%	14.2%	14.0%	13.7%
RoAA	6.1%	5.7%	6.3%	6.8%	7.7%	8.6%	9.5%	10.3%
BEP	6.4%	6.9%	8.2%	8.5%	9.0%	9.6%	10.1%	10.4%
RoAIC	6.0%	7.7%	9.7%	10.2%	11.2%	12.2%	13.1%	13.8%
RoACE	7.0%	7.6%	8.9%	9.2%	9.8%	10.5%	11.1%	11.6%

Liquidity

Current Ratio	2.0x	1.5x	1.8x	1.7x	1.7x	1.7x	1.7x	2.5x
Quick Ratio	2.0x	1.5x	1.8x	1.7x	1.7x	1.7x	1.7x	2.5x
Cash Ratio	0.9x	0.6x	0.9x	0.8x	0.8x	0.9x	0.9x	1.3x

Debt Ratios

Debt-to-Equity	1.2x	1.1x	1.0x	0.8x	0.6x	0.4x	0.3x	0.1x
Long-Term Debt-to-Equity	1.1x	0.9x	0.8x	0.6x	0.5x	0.3x	0.1x	0.1x
EBITDA Interest Coverage	8.4x	7.2x	5.6x	6.1x	7.5x	9.8x	13.5x	21.7x
Net Debt-to-EBITDA	4.3x	3.7x	2.7x	2.1x	1.5x	0.9x	0.3x	-0.3x
Debt-to-Capital	0.6x	0.5x	0.5x	0.4x	0.4x	0.3x	0.2x	0.1x

Source: Company data, QNB FS estimates

Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018	FY2019e	FY2020e	FY2021e	FY2022e
Revenue	981	1,232	1,263	1,306	1,353	1,383
<i>YoY Growth</i>	16%	26%	2%	3%	4%	2%
Direct Costs	(515)	(679)	(702)	(727)	(754)	(772)
Gross Profit	467	554	561	580	599	611
<i>Gross Margin</i>	48%	45%	44%	44%	44%	44%
General and Administrative Expenses	(79)	(83)	(83)	(84)	(84)	(85)
EBITDA	388	471	477	496	514	526
<i>YoY Growth</i>	20%	21%	1%	4%	4%	2%
<i>EBITDA Margin</i>	40%	38%	38%	38%	38%	38%
Depreciation and Amortization	(128)	(166)	(169)	(176)	(183)	(189)
EBIT	260	305	309	320	331	337
<i>YoY Growth</i>	20%	17%	1%	4%	3%	2%
<i>EBIT Margin</i>	26%	25%	24%	25%	24%	24%
Net Finance Costs and Other Income	(45)	(67)	(61)	(48)	(35)	(21)
Net Income to Equity	215	237	248	272	296	317
<i>YoY Growth</i>	5%	10%	5%	10%	9%	7%
<i>Net Margin</i>	22%	19%	20%	21%	22%	23%
EPS (QR)	3.68	4.04	4.23	4.64	5.06	5.40
DPS (QR)	1.70	1.90	2.00	2.20	2.40	2.60
<i>Payout Ratio</i>	46%	47%	47%	47%	47%	48%

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2017	FY2018	FY2019e	FY2020e	FY2021e	FY2022e
Non-Current Assets						
PP&E and Projects in Progress	2,729	2,647	2,552	2,433	2,306	2,174
Investment Properties	37	38	38	38	38	38
Leasehold Property & Associates	-	-	-	-	-	-
Intangible Assets & Goodwill	119	131	124	116	108	101
Available-for-Sale Investments	-	18	18	18	18	18
Total Non-Current Assets	2,886	2,834	2,731	2,605	2,471	2,331
Current Assets						
Inventories	11	11	11	12	12	12
Trade and Other Receivables	525	420	432	439	448	451
Bank Balances and Cash	352	427	417	438	462	492
Total Current Assets	888	858	861	889	923	956
Total Assets	3,774	3,692	3,592	3,493	3,394	3,287
Equity & Liabilities						
Total Shareholders' Equity	1,636	1,732	1,862	2,010	2,170	2,338
Non-Controlling interests	(4)	(3)	(3)	(3)	(3)	(3)
Non-Current Liabilities						
Loans and Borrowings	1,525	1,462	1,187	919	637	341
Employee Benefits	31	37	43	49	55	61
Total Non-Current Liabilities	1,556	1,499	1,230	968	692	402
Current Liabilities						
Trade Payables	53	37	40	41	41	42
Loans and Borrowings	261	222	255	268	282	296
Accruals, Provisions & Other Payables	203	195	196	199	200	201
Retention Payable	68	11	11	11	11	11
Total Current Liabilities	585	464	502	518	534	549
Total Liabilities	2,142	1,963	1,732	1,486	1,227	952
Total Equity & Liabilities	3,774	3,692	3,592	3,493	3,394	3,287

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

Contacts

Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

Zaid al-Nafoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafoosi@qnbfs.com.qa

QNB Financial Services Co. W.L.L.

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services Co. W.L.L. ("QNBFS") a wholly-owned subsidiary of Qatar National Bank (Q.P.S.C.). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange. Qatar National Bank (Q.P.S.C.) is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. QNBFS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNBFS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report. This report may not be reproduced in whole or in part without permission from QNBFS.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNBFS.