

Gulf Warehousing Company (GWCS)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR5.05	Target Price	QR5.10
Implied Upside	1.0%		

2020 Growth Uncertain; Shifting to MP with Unchanged QR5.1 Target

We are changing our rating on GWCS from Accumulate to Market Perform and keeping our price target unchanged at QR5.10. While there are a lot of moving parts going into the 2020 forecast, we estimate a 5.3% EPS decline currently. We will update our model post release of YE2019 results and expect better visibility into 2020 forecasts at that time. We note GWCS management remains on the hunt for growth opportunities and announcements of new projects could provide some momentum to this stock. **Despite being up 37% YTD on a total return basis, the stock has been trading water since mid-2019 and we believe expansion-related newsflow and/or anticipation of 2019 dividends (we expect 5.3% growth in DPS to QR0.20) to provide a lift to GWCS shares.** Longer term, we retain our bullish investment thesis on GWCS – the company has withstood the blockade well with its freight forwarding segment showing significant growth (expected up 36% in 2019 from 2017); GWCS' logistics business also remains robust driven by contract logistics and increasing occupancy in Bu Sulba. Growth post Bu Sulba (~92% occupancy) will decline, but as we had flagged previously, GWCS has started generating substantial FCF with FCF yield increasing from 1.5% in 2017 to 9.4% in 2018, reaching 14.0% in 2024. Dividend yield of 3.8% for 2018 should grow to 5.0% by 2024. With major capex already done, there could be upside to dividends medium-term.

Highlights

- **GWCS posts 8.0% YoY growth but 5.7% QoQ decline in 3Q2019 earnings, in-line with our estimate.** GWCS' 3Q2019 profits of QR59.4mn was in line with our estimate of QR60.5mn (-1.8% variation). 3Q2019 revenue of QR315.6mn was up 4.8% YoY (+6.7% QoQ). GMs progressed from 34.5% in 3Q2018 to 35.5% in 3Q2019 but came off 2Q2019's 38.0%. So far, GMs are up from 33.9% (9M2018) to 36.4% YTD 2019. Besides costs efficiencies, higher mix of logistics (64.5% of 9M2019 revenue vs. 61.7% in 9M2018) drove GM growth.
- **For 2019, we see flattish top-line, along with 4% YoY growth (~8% growth including impact of IFRS 16) in EPS.** We expect the company to post a bottom-line figure of QR245.1mn in 2019. We also model in a DPS of QR0.20 (47.8% payout) which implies a growth of 5.3%.
- **For 2020, we expect revenue/EPS to decline 5% to QR1.2bn/QR0.40.** During its earnings call, management spoke of a challenging/competitive market environment leading to reduction in rates/space requirements. The company pointed to reduced rates in contract logistics, records management, freight and its container yard, along with reduction in storage space/early lease terminations in its logistics parks. Moreover, the impact of FIFA 2022 on the freight forwarding business seems to be tapering off. However, GWCS noted several bright spots of increased business and/or profitability in fine arts freight, its UPS business, marine freight and in transportation. Management reckons QR7m was shaved off YTD 2019 top-line due to lower rates and QR14mn has been reduced due to occupancy. GWCS also pointed to challenges in collecting receivables, with 9M2019 cash collections down ~QR60mn but stressed payments, although delayed, were still coming in with little risk of nonpayment. Overall, while GWCS has been able to mitigate revenue/margin pressures to an extent and retain/grow customers, another up year in earnings in 2020 looks increasingly sanguine.

Catalysts

- **Newsflow on new projects: (1)** We await news on major domestic expansions. **(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 a Market Perform with a price target of QR5.10.** We have rolled our DCF model forward to 2020; GWCS trades at P/E of 12.1x and 12.8x for 2019 & 2020, respectively.
- **Risks:** The overall environment seems challenging. Top-line growth after 2018 is potentially capped and margins could come under pressure. Payment delays/defaults could become an issue although management seems confident of normalizing collections in the medium-term.

Key Financial Data and Estimates

	FY2017	FY2018	FY2019e	FY2020e
Revenue (QR mn)	981	1,232	1,232	1,174
Growth	16%	26%	0%	-5%
EPS (QR)	0.37	0.40	0.42	0.40
Growth	5%	10%	4%	-5%
P/E (x)	13.7x	12.5x	12.1x	12.8x
DPS (QR)	0.17	0.19	0.20	0.21

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)	5.50/3.57
3-m Average Volume ('000)	165.3
Mkt. Cap. (\$ bn/QR bn)	0.8/3.0
EV (\$ bn/QR bn)	1.2/4.5
Shares Outstanding (mn)	586.0
FO Limit* (%)	49.0
Current FO* (%)	25.7
1-Year Total Return (%)	27.8
Fiscal Year End	Dec. 31

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

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Valuation and Key Ratios

Valuation Metrics

	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Valuation								
EV/EBITDA	13.4x	11.3x	9.6x	8.8x	8.6x	8.2x	7.6x	6.8x
P/E	14.4x	13.7x	12.5x	12.1x	12.8x	12.4x	11.8x	10.9x
P/CF	6.6x	8.8x	8.2x	9.5x	6.2x	7.0x	6.9x	6.6x
P/FCF	<i>nmf</i>	67.0x	10.7x	11.9x	7.4x	7.9x	7.8x	7.4x
P/BV	1.9x	1.8x	1.8x	1.7x	1.6x	1.5x	1.4x	1.3x
Dividend Yield	3.2%	3.4%	3.8%	4.0%	4.2%	4.4%	4.6%	4.8%
FCF Yield	-17.1%	1.5%	9.4%	8.4%	13.5%	12.6%	12.8%	13.6%

Source: Bloomberg, QNB FS estimates

Ratio Analysis

	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Growth (%)								
Revenue	7.8%	15.5%	25.6%	0.0%	-4.7%	2.0%	1.8%	1.5%
Cash Gross Profit	8.6%	17.2%	18.6%	5.6%	-3.9%	-0.8%	0.7%	2.6%
EBITDA	11.5%	20.1%	21.3%	5.0%	-4.8%	-1.2%	0.5%	2.8%
EBIT	11.1%	20.3%	17.3%	7.0%	-7.6%	-2.5%	0.0%	3.7%
Net Profit	11.1%	4.8%	9.9%	3.5%	-5.3%	2.9%	5.2%	8.4%
Cash Flow Per Share	1033.7%	-25.6%	8.3%	-14.3%	52.5%	-10.6%	0.8%	5.5%
Free Cash Flow Per Share	<i>nmf</i>	<i>nmf</i>	527.5%	-10.3%	60.7%	-6.3%	0.9%	6.2%
Dividends Per Share	6.7%	6.2%	11.8%	5.3%	5.0%	4.8%	4.5%	4.3%
Profitability (%)								
Gross Margin	46.9%	47.5%	44.9%	47.4%	47.8%	46.5%	46.0%	46.5%
EBITDA Margin	38.0%	39.5%	38.2%	40.1%	40.1%	38.8%	38.3%	38.8%
EBIT Margin	25.4%	26.5%	24.8%	26.5%	25.7%	24.5%	24.1%	24.6%
Net Margin	24.2%	22.0%	19.2%	19.9%	19.8%	19.9%	20.6%	22.0%
RoAE	14.0%	13.7%	14.4%	14.2%	12.6%	12.2%	12.1%	12.4%
RoAA	6.1%	5.7%	6.2%	6.2%	6.0%	6.4%	6.9%	7.6%
BEP	6.4%	6.9%	7.9%	8.3%	7.8%	7.9%	8.1%	8.6%
RoAIC	6.0%	7.7%	9.8%	10.6%	10.7%	10.9%	11.4%	12.3%
RoACE	7.0%	7.6%	9.0%	9.8%	9.4%	9.6%	10.0%	10.6%
Liquidity								
Current Ratio	2.0x	1.5x	1.8x	1.8x	1.7x	1.9x	2.1x	2.6x
Quick Ratio	2.0x	1.5x	1.8x	1.8x	1.7x	1.9x	2.1x	2.6x
Cash Ratio	0.9x	0.6x	0.9x	0.8x	0.8x	0.9x	1.1x	1.5x
Debt Ratios								
Debt-to-Equity	1.2x	1.1x	1.0x	0.8x	0.7x	0.5x	0.4x	0.3x
Long-Term Debt-to-Equity	1.1x	0.9x	0.9x	0.7x	0.5x	0.4x	0.3x	0.2x
EBITDA Interest Coverage	8.4x	7.2x	5.6x	5.4x	5.8x	6.9x	8.5x	10.6x
Net Debt-to-EBITDA	4.3x	3.7x	2.7x	2.3x	1.8x	1.3x	0.7x	0.1x
Debt-to-Capital	0.6x	0.5x	0.5x	0.5x	0.4x	0.3x	0.3x	0.2x

Source: Company data, QNB FS estimates

Peer Comparison

Company	Mcap	Beta	P/E		EV/EBITDA		P/BV		P/FCF		ROE		EBITDA Margin		Dividend Yield	
	USDmn	5yr adj.	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e
IMPERIAL LOGISTICS LTD	739	1.10	10.9	8.9	4.6	4.1	1.13	1.07	2.75	3.93	13.4%	13.8%	7.4%	8.1%	4.28	5.22
DP WORLD PLC	11,205	0.64	9.1	8.8	8.1	7.3	0.96	0.90	8.8	6.2	10.7%	10.3%	39.3%	38.0%	3.26	3.43
AGILITY	4,152	1.19	1.5	1.2	7.7	6.8	0.12	0.11	18.5	13.7	8.3%	9.3%	12.1%	12.8%	19.79	19.79
ARAMEX PJSC	1,594	0.55	10.8	10.1	7.2	6.7	2.15	1.94	19.6	9.6	21.0%	20.1%	17.9%	18.2%	4.68	5.00
SINOTRANS LIMITED-H	3,829	1.26	6.7	6.0	9.4	8.4	0.59	0.55	12.9	35.8	9.8%	9.6%	4.2%	4.5%	4.94	5.27
SINGAPORE POST LTD	1,585	0.77	21.3	21.3	12.2	12.1	1.48	1.44	16.1	17.1	7.3%	9.0%	13.8%	13.7%	3.65	3.75
NIPPON EXPRESS CO LTD	5,392	1.00	11.9	12.8	6.4	6.7	0.97	0.93	-143.6	-275.5	8.0%	8.1%	5.9%	5.6%	2.47	2.59
NIPPON YUSEN KK	3,134	1.22	n.a.	14.2	14.9	11.6	0.68	0.65	16.3	12.0	5.3%	5.9%	5.3%	7.2%	1.00	2.01
EXPEDIA GROUP INC	20,060	1.08	20.1	17.0	9.4	8.4	4.07	3.61	14.9	12.8	20.0%	22.1%	18.5%	18.9%	0.95	1.07
UNITED PARCEL SERVICE-CL B	99,743	1.03	15.5	14.3	11.2	10.4	15.43	10.30	31.1	22.9	121.3%	86.6%	14.1%	14.5%	3.30	3.46
FEDEX CORP	41,328	1.24	10.4	13.0	8.5	9.2	2.14	1.88	64.13	-163.43	17.2%	16.3%	12.1%	11.1%	1.65	1.67
DEUTSCHE POST AG-REG	43,937	0.98	15.0	13.0	7.2	6.5	2.69	2.44	25.0	20.2	18.6%	19.3%	11.9%	12.6%	3.79	4.11
PANALPINA WELTTRANSPORT -REG	5,424	0.89	57.7	44.2	18.8	16.9	9.33	8.93	46.92	33.98	18.3%	22.2%	4.8%	5.2%	1.73	1.85
Peer Group Median		1.03	11.4	13.0	8.5	8.4	1.5	1.4	16.3	12.8	13.4%	13.8%	12.1%	12.6%	3.3%	3.5%
Peer Group Average		1.00	15.9	14.2	9.7	8.9	3.2	2.7	10.3	-19.3	21.5%	19.4%	12.9%	13.1%	4.3%	4.6%
Peer Group Normalized Av.		1.01	13.2	12.7	9.3	8.6	2.4	2.2	19.4	-1.0	13.9%	14.6%	11.3%	11.6%	3.2%	3.5%
Peer Group Normalized Av.2		1.03	13.0	12.5	9.0	8.4	1.8	1.7	18.1	13.2	13.8%	14.4%	11.2%	11.5%	3.2%	3.5%

GULF WAREHOUSING CO	813	0.76	12.1	12.8	8.8	8.6	1.65	1.56	11.9	7.4	14.2%	12.6%	40.1%	40.1%	3.96	4.16
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Source: Bloomberg, QNB FS estimates

Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018	FY2019e	FY2020e	FY2021e	FY2022e
Revenue	981	1,232	1,232	1,174	1,198	1,219
<i>YoY Growth</i>	16%	26%	0%	-5%	2%	2%
Direct Costs	(515)	(679)	(648)	(613)	(641)	(658)
Gross Profit	467	554	584	561	557	561
<i>Gross Margin</i>	48%	45%	47%	48%	47%	46%
General and Administrative Expenses	(79)	(83)	(90)	(91)	(92)	(94)
EBITDA	388	471	494	470	465	467
<i>YoY Growth</i>	20%	21%	5%	-5%	-1%	1%
<i>EBITDA Margin</i>	40%	38%	40%	40%	39%	38%
Depreciation and Amortization	(128)	(166)	(167)	(169)	(171)	(173)
EBIT	260	305	326	301	294	294
<i>YoY Growth</i>	20%	17%	7%	-8%	-2%	0%
<i>EBIT Margin</i>	26%	25%	26%	26%	25%	24%
Net Finance Costs and Other Income	(45)	(67)	(81)	(69)	(55)	(43)
Net Income to Equity	215	237	245	232	239	251
<i>YoY Growth</i>	5%	10%	4%	-5%	3%	5%
<i>Net Margin</i>	22%	19%	20%	20%	20%	21%
EPS (QR)	0.37	0.40	0.42	0.40	0.41	0.43
DPS (QR)	0.17	0.19	0.20	0.21	0.22	0.23
<i>Payout Ratio</i>	46%	47%	48%	53%	54%	54%

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2017	FY2018	FY2019e	FY2020e	FY2021e	FY2022e
Non-Current Assets						
PP&E, WIP & Right of Use Assets	2,729	2,881	2,889	2,803	2,691	2,575
Investment Properties	37	38	38	38	38	38
Intangible Assets & Goodwill	119	131	124	116	108	101
Available-for-Sale Investments/Other	-	18	18	18	18	18
Total Non-Current Assets	2,886	3,068	3,069	2,975	2,855	2,732
Current Assets						
Inventories	11	11	11	10	11	11
Trade and Other Receivables	525	415	486	401	394	394
Bank Balances and Cash	352	427	379	406	390	443
Total Current Assets	888	853	876	817	794	848
Total Assets	3,774	3,920	3,945	3,793	3,649	3,581
Total Shareholders' Equity	1,636	1,663	1,791	1,900	2,010	2,126
Non-Controlling interests	(4)	(3)	(3)	(3)	(3)	(3)
Non-Current Liabilities						
Lease Liabilities & Others		281	388	389	389	390
Loans and Borrowings	1,525	1,462	1,244	976	781	601
Employee Benefits	31	37	44	49	54	60
Total Non-Current Liabilities	1,556	1,780	1,676	1,414	1,225	1,051
Current Liabilities						
Trade Payables	53	37	32	30	32	32
Loans and Borrowings	261	222	255	268	195	180
Accruals, Provisions & Other Payables	203	195	169	159	167	171
Lease Liabilities		16	15	14	13	12
Retention Payable	68	11	11	11	11	11
Total Current Liabilities	585	480	481	482	417	407
Total Liabilities	2,142	2,260	2,157	1,896	1,642	1,458
Total Equity & Liabilities	3,774	3,920	3,945	3,793	3,649	3,581

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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