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Gulf Warehousing Company

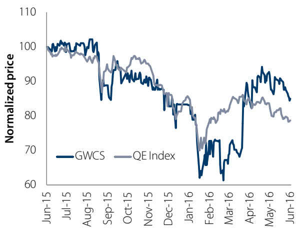
Expansion of warehousing hubs to drive growth
Current share price largely reflects outlook

5th June 2016

Recommendation: HOLD

Current stock price (QAR)	57.80
52-week range (QAR)	40.05-70.28
YTD performance	2.1%
Number of shares (mn)	58.6
Free Float (%)	61%
Market Cap (QARmn)	3,387
Market Cap (USDmn)	931
Div. Yld 2016E	2.7

Current Price:	**QAR 57.80**	Country:	**QATAR**
Target Price	**QAR 61.10**	Sector:	**LOGISITCS**
Recommendation:	**HOLD**	Exchange:	**QATAR EXCHANGE**



Source: Bloomberg

GWC: REINFORCING ITS POSITION AS QATAR'S LEADING LOGISTICS COMPANY

Gulf Warehousing Company (GWC) is the largest logistics company operating out of Qatar. The company's business lines are divided into two segments: Logistics Operations and Freight Forwarding. A key component of the former is warehousing services provided by the company via hubs it is developing in Qatar. The company is implementing a c. QAR 1.1bn capex program, which is set to increase its warehousing net leasable area (NLA) from 400k sqm in 2015 to 670k sqm by 2017. The Bu Sulba Warehousing Park (210k sqm NLA; scheduled for completion by 2017) is expected to be the primary driver of this expansion, as well as the biggest source of top line and bottom line growth for GWC over our forecast period.

HEALTHY GROWTH TO CONTINUE, ALBEIT AT SLOWER PACE THAN IN RECENT YEARS

The phased development of GWC's Logistics Village development (350k NLA) during recent years was accompanied by rapid top and bottom line growth (2012-2015 revenues and net income CAGRs of 18% and 32%, respectively). With the final phase of Logistics Village set for completion in 2016, we expect the pace of growth to slow down in the coming years. That said continued expansion of GWC's warehousing capacity should translate into sustained growth in the next few years. We anticipate 2015-2018 revenue CAGR of 12%, driven primarily by a 14% CAGR for the Logistics Operations business segment over the same period (Freight Forwarding: 7% CAGR). Faster growth for the higher margin Logistics Operations business should in turn lead to a 60bps improvement in GPM from 36.4% in 2015 to 37.0% by 2018. Moreover, we expect the SG&A-to-revenues ratio to stabilize around 12.5% level seen in 2015. As a consequence, EBITDA margin is projected to improve from 38.4% in 2015 to 42.1% by 2018, with 2015-2018 EBITDA CAGR of 16%. Net income, on the other hand, is projected to grow at a slower 2015-2018 CAGR of 9%. This results mainly from: 1) higher financial charges and 2) assumption of zero fair value gains during our forecast past period (2015: QAR 13mn, 7% of net income). The company intends to finance the QAR 1.1bn capex mainly through debt funding, which will pressure the bottom line in the form of higher interest cost in the coming years. For 2016 in particular, we anticipate net income to stand at QAR 191mn, up 3.1% YoY.

INITIATE COVERAGE WITH TARGET PRICE AT QAR 61.10, HOLD RECOMMENDATION

We initiate coverage on Gulf Warehousing Company (GWC) with a HOLD recommendation and a target price of QAR 61.10/share, translating into 6% upside potential compared to the recent closing price. We have utilized a weighted average of two valuation exercises, DCF methodology and relative valuation approach to arrive at our target price. The company trades at a 12% discount and 28% premium, respectively on 2017E P/E and EV/EBITDA comparison with global peers, while offering a slightly better dividend yield (GWC 2016E dividend yield at 2.7% vs. average of 2.4% for peers). We feel that GWC's current share price largely reflects its growth prospects, thus explaining our neutral stance on the stock.

Year	Revenues (QAR mn)	EBIT (QAR mn)	Net Profit(QAR mn)	EPS (QAR)	P/E (x)	EV/EBITDA (x)
2015A	788	208	185	3.16	18.3	14.5
2016E	870	230	191	3.26	17.7	13.1
2017E	1,002	271	218	3.73	15.5	11.3
2018E	1,105	293	237	4.04	14.3	9.4

Sector Coverage

Asjad Yahya, CFA
+9714 3199 768
ayahya@shuaa.com

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Valuation

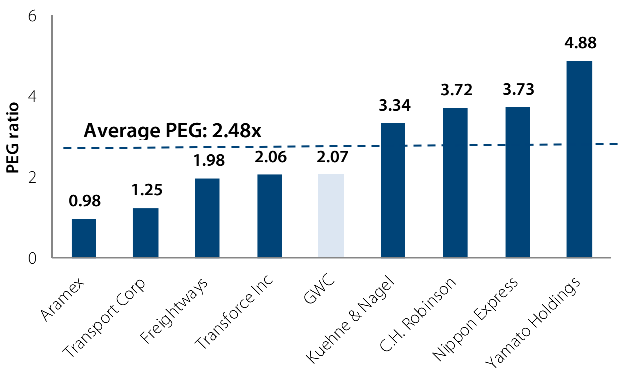
We initiate coverage on Gulf Warehousing Company (GWC) with a HOLD recommendation and a target price of QAR 61.10/share, translating into 6% upside potential from the recent closing price. We have utilized a weighted average of two valuation approaches, the DCF methodology and a relative valuation approach to arrive at our target price.

Valuation summary*

Detail	Fair Value	Weighting	Weighted fair value/share
DCF	64.20	70%	44.90
Relative Valuation	54.10	30%	16.20
Weighted fair value per share (QAR)			**61.10**
Current share price (QAR)			57.80
Upside/(Downside) potential			***5.7%***

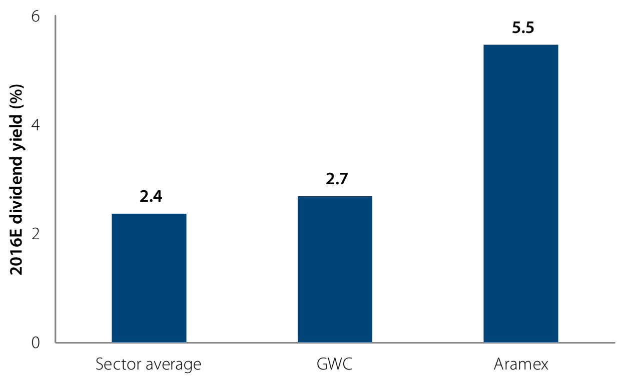
Source: SHUAA Capital
**: fair values have been rounded to match tick size*

GWC trading below peers on PEG* comparison



Source: Bloomberg, SHUAA Capital
**: 2016E P/E divided by 2015-2018 net income CAGR*

Offering better than average dividend yield



Source: Bloomberg, SHUAA Capital

DCF analysis yields a fair value estimate of QAR 64.20/share

Our DCF-valuation is based on a 5-year forecast period (2016-2020) with a terminal value. Notably, our explicit forecast period incorporates expansion of GWC's warehousing capacity from an NLA of 400k sqm at the end of 2015 to 670k sqm by 2017 as the final phase of Logistics Village, Ras Laffan Industrial City (RLIC) Logistics Hub and Bu Sulba Warehousing Park are added to the company's portfolio. These expansions are anticipated to be the biggest source of GWC's top and bottom line growth in the coming years.

The table below presents the main inputs for our DCF analysis:

Key inputs for DCF analysis

(QARmn)	2016E	2017E	2018E	2019E	2020E
EBITDA	334	390	466	472	482
(Less)/Add: changes in working capital	54	(9)	1	(12)	(2)
Less: capital expenditure	(900)	(190)	(111)	(143)	(155)
Free Cash Flow	**(511)**	**191**	**357**	**317**	**325**
WACC	*9.2%*				
Terminal growth rate	*2.5%*				

Source: SHUAA Capital

Our WACC is based on a Cost of Equity of 12%, cost of debt of 4% and target debt-to-capital ratio of 35%.

Details	Value (QARmn)
Enterprise Value	**4,753**
Less: Net debt	(1,003)
Less: Minorities	(4)
Less: EOSB	(24)
Add: Investments	37
Equity value	**3,760**
Number of shares outstanding (mn)	58.6
Value per share (QAR)	**64.20***
Current price (QAR)	57.80
Upside/Downside (%)	***11.1%***

Source: SHUAA Capital
**: fair value has been rounded to match tick size*

Relative valuation yields a lower fair value estimate of QAR 54.10/share

We utilize the median 2017 P/E and 2017 EV/EBITDA multiples for a group of global logistics operators to derive a Target Price for GWC. By equally weighting the two methodologies, we arrive at a target price estimate of QAR 54.10/share, 6% below the prevailing share price.

Summary of relative valuation*

Detail	Fair value	Weighting	Weighted fair value/share
2017E P/E	66.40	50%	33.20
2017E EV/EBITDA	41.90	50%	20.90
Target price per share (QAR)			**54.10**
Current price (QAR)			57.80
Upside/Downside (%)			***-6.4%***

Source: SHUAA Capital
**: fair values have been rounded to match tick size*

Gulf Warehousing Company's peers

Company	Country	Market Cap (USDm)	P/E			EV/EBITDA			EV/Sales	Div yield (%)	ROE		NI CAGR
			TTM	2016	2017	TTM	2016	2017	2016	2016	TTM	2016	2015-2018
CSX Corp	USA	25,264	14.2	15.0	13.6	7.4	7.7	7.4	3.2	2.8	16.4	14.3	N/A
Kuehne & Nagel	Switzerland	16,893	23.9	23.1	21.8	14.8	14.2	13.5	0.8	3.8	29.6	32.7	6.9%
C.H. Robinson	USA	10,705	20.7	19.8	18.5	12.3	12.0	11.4	0.9	2.3	46.4	45.1	5.3%
Expeditors Intl	USA	8,839	20.7	20.5	19.0	10.4	10.8	10.3	1.3	1.6	24.1	25.8	2.2%
Yamato Holdings	Japan	8,372	23.1	20.9	19.4	7.4	7.3	7.1	0.6	1.2	7.1	7.0	4.3%
Nippon Express	Japan	4,478	13.3	12.4	11.6	6.3	6.3	6.1	0.4	2.2	6.8	6.7	3.3%
Freightways	NZ	717	23.6	19.3	17.8	13.6	12.2	11.5	2.4	3.6	21.2	25.1	9.8%
Hanjin Trans.	S. Korea	350	4.1	13.7	7.5	16.8	10.2	8.8	0.8	1.1	13.4	4.2	N/A
Transforce Inc	Canada	1,745	15.9	13.7	11.7	6.9	7.2	6.8	0.8	3.2	52.8	14.2	6.6%
Transport Corp	India	320	25.7	22.1	18.4	12.4	11.7	10.0	0.9	0.6	14.6	14.6	17.6%
Mitsubishi Log.	Japan	2,456	28.7	28.7	27.8	11.8	12.0	11.9	1.4	0.8	3.6	3.4	N/A
Yusen Logistics	Japan	443	18.0	12.6	11.4	4.2	4.0	3.8	0.1	1.8	3.6	4.7	17.2%
Aramex	UAE	1,288	14.8	12.7	10.4	9.9	7.9	6.7	1.1	5.5	14.4	15.8	12.9%
Average			**19.0**	**18.0**	**16.1**	**10.3**	**9.5**	**8.9**	**1.1**	**2.4**	**19.6**	**16.4**	**8.6%**
Median			**20.7**	**19.3**	**17.8**	**10.4**	**10.2**	**8.8**	**0.9**	**2.2**	**14.6**	**14.3**	**6.8%**
GWC	**Qatar**	**931**	**17.0**	**17.7**	**15.5**	**15.5**	**13.1**	**11.3**	**5.0**	**2.7**	**17.3**	**13.1**	**8.6%**

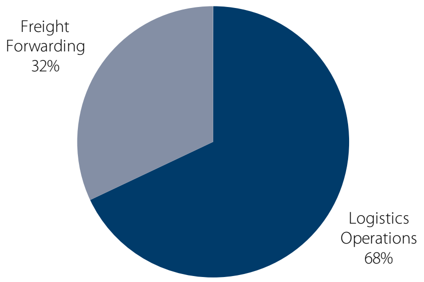
Source: Bloomberg, SHUAA Capital

Bu Sulba to drive the next growth leg

Logistics Operations: accounting for majority of revenues and even bigger pie of profits

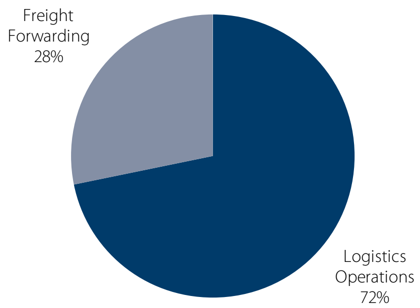
Gulf Warehousing Company's revenue stream is divided into two business segments: 1) Logistics Operations and 2) Freight Forwarding. As illustrated in the tables below, the former accounts for the majority of the company's revenues as well as profitability.

Revenue mix by business segment (2015)



Source: GWC, SHUAA Capital

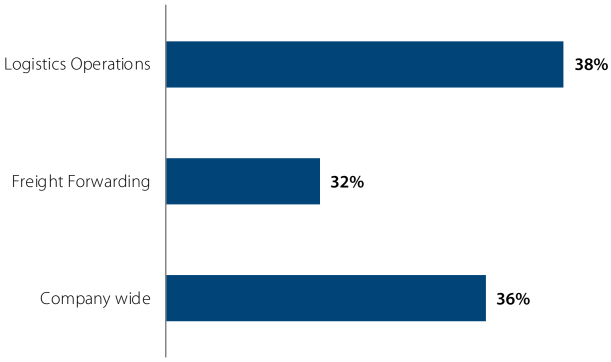
Gross profit by business segment (2015)



Source: GWC, SHUAA Capital

The Logistics Operations segment enjoys considerably higher margins than the Freight Forwarding business (GPM of 38.4% vs. 32%, respectively in 2015). In fact, given intense competition within the freight forwarding industry, this gap is expected to widen further in the coming years. Management guidance suggests that GWC's Freight Forwarding segment could witness a 100-200bps YoY decline in GPM in 2016.

Gross margin by segment (2015)

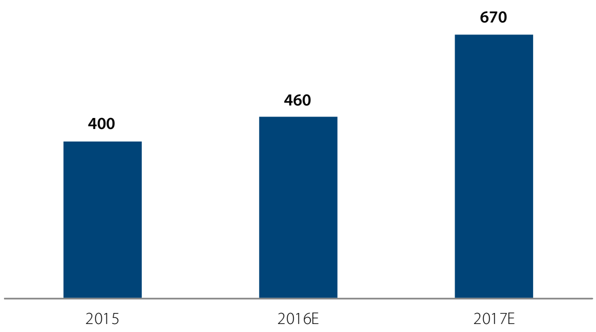


Source: GWC, SHUAA Capital

Bu Sulba Warehousing Park to substantially expand leasable area

Gulf Warehousing Company's leasable warehousing space is set to expand considerably by 2017. With the completion of Phase IV of the Logistics Village last year, we estimate that the company's total NLA stood at 400k sqm at the end of 2015 (100% occupancy currently). The completion of 45k sqm Phase V of Logistics Village (the last phase of the project) and 15k sqm Ras Laffan Industrial City (RLIC) Logistics Hub later this year should bring total NLA to 460k sqm by the end of 2016. Moreover, the company acquired a contract in 2015 for the development of a logistics site in the Bu Sulba area (titled "GWC Bu Sulba Warehousing Park"). Scheduled for completion in 2017, Bu Sulba Warehousing Park is expected to increase GWC's NLA by almost 46%.

GWC's warehousing NLA by year end (sqm'000)



Source: GWC, SHUAA Capital

Focused on the SME sector, the Bu Sulba Warehousing Park will be constructed over 517,316 square meters with 40% built-up area. It will consist of hundreds of warehousing units with specifications optimized for SMEs. Moreover, GWC expects the FMCG sector to be the largest source of tenants. Given its focus on SMEs, we expect the lease rates for Bu Sulba Warehousing Park to be slightly lower than that for Logistics Village. This is turn is anticipated to translate into lower margins for the former. Lastly, management has indicated that a substantial portion of NLA at the Bu Sulba Warehousing Park has been pre-leased and we expect the project to be fully let by the time of its completion next year.

Ongoing capex to be funded by debt, new growth initiatives likely later this year

Gulf Warehousing Company is expected to incur combined capex of c. QAR 1.1bn on Phase V of Logistics Village, RLIC Logistics Hub and Bu Sulba Warehousing Park. The bulk of this spending is anticipated to occur in the current year, with the remainder in 2017. Moreover, the Bu Sulba Warehousing Park commands the lion's share of this capex followed by Phase V of Logistics Village and RLIC Logistics Hub, respectively.

Note that GWC announced a 25% rights issue late last year, as a result of which the company raised QAR 423mn. While the company has substantial cash on its balance sheet (QAR 493mn as at 31 March 2016; 15% of GWC's market cap), it intends to finance the majority of 2016-2017 capex through debt financing. Moreover, the company has indicated that the available cash is likely to be utilized for funding further growth initiatives. While no details are available in this regard at this stage, guidance on this front could come through by H2 16, representing a key upside risk to our forecasts.

Financial Outlook

Logistics Operations primary driver of short and medium term growth

Gulf Warehousing recorded very strong growth in recent years (2012-2015 net income CAGR: 32%) as the company rolled out its Logistics Village hub. With the final phase of this development set for completion in 2016, we expect GWC's growth to slow down in the coming years, albeit still remaining at healthy levels (2015-2018 net income CAGR: 9%).

#1. ***Logistics Operations to continue to grow faster than Freight Forwarding:*** With 2015-2018 revenue CAGR of 14%, the Logistics Operations business is anticipated to remain the main driver of GWC's top line growth in the coming years. This growth will in turn be led by expansion of leasable warehousing space across Logistics Village, RLIC Logistics Hub and Bu Sulba Warehousing Park. Meanwhile, increasing competition is expected to result in lower 2015-2018 revenue CAGR of 7% for Freight Forwarding. On an aggregate basis, GWC's top line is projected to grow at 2015-2018 CAGR of 12%, while YoY increase in 2016 is anticipated to stand at 11%.

#2. ***GPM to improve as revenue share of Logistics Operations increases:*** The Logistics Operations business is associated with higher margins than Freight Forwarding: 2015 GPM of 38.4% vs. 32%, respectively. Consequently, as the revenue share of Logistics Operations increases in the coming years due to faster growth, GWC's GPM is expected to improve from 36.4% in 2015 to 37.0% by 2018.

While we project a general upward trend in Logistics Operations' margins over our forecast period, 2018E is anticipated to be an exception, with a slight YoY decline in GPM (down 70bps YoY). This expectation is based on the fact that 2018 will be the first full year of contribution from Bu Sulba Warehousing Park. Given that this project is expected to have lower margins than that for Logistics Village, we anticipate a YoY decline in GPM in 2018E before the uptrend resumes. Moreover, given increasing competition in the industry, we expect margins for GWC's Freight Forwarding business to remain under pressure over our forecast period.

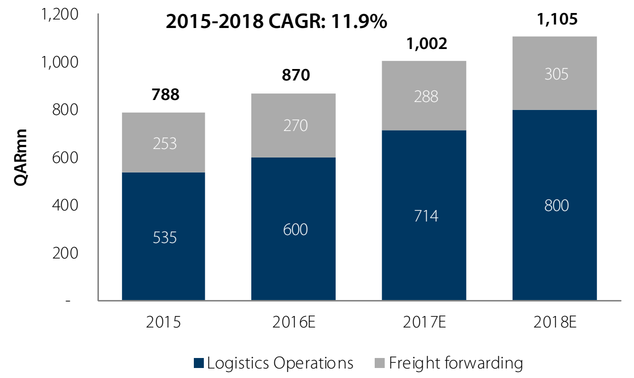
#3. ***EBITDA margin to improve as new projects brought on-stream:*** We expect the SG&A-to-revenues ratio to stabilize around the 12.5% level seen in 2015. As such, the combination of an improving gross margin and relatively stable SG&A-to-revenues ratio is expected to result in an improving EBITDA margin. We thus project a 370bps improvement in EBITDA margin from 38.4% in 2015 to 42.1% by 2018.

#4. ***2015-2018 net income CAGR projected at 9%:*** We expect GWC to post 2015-2018 net income CAGR of 8.6%. Slower bottom line growth relative to revenues over this period is attributable to two key factors: 1) higher financial charges and 2) absence of any fair value gains during our forecast past period (2015: QAR 13mn, 7% of net income). As mentioned earlier, GWC intends to fund its upcoming capex of c. QAR 1.1bn over 2016-2017 mainly by debt. The resulting increase in finance cost is expected to dampen the impact of top line growth and margin improvement on the bottom line. Furthermore, following reclassification of an investment property to PP&E in Q1 16, we do not project any revaluation gains from 2016 onwards (BV of investment properties declined from QAR 186mn in Q4 15 to QAR 37mn in Q1 16 following the reclassification). For 2016 in particular, we project net income of QAR 191mn, translating into 3% YoY growth as the current year will witness only partial contribution of revenues from Phase V of Logistics Village and RLIC Logistics Hub. In contrast, 2017 is expected to benefit from the full year impact of both these projects, as well as partial income from Bu Sulba Warehousing Park, resulting in 14% YoY growth.

#5. ***Reduction in receivables to support cash flows in 2016:*** GWC's "Trade & other receivables" more than doubled to QAR 513mn in 2015, as a result of 1) rise in trade receivables (up 69% YoY) and 2) advances to suppliers (up 694% YoY to QAR 195mn). Given the prevailing economic environment, we assume that trade receivables will remain at elevated levels over our forecast period (DSO at 105, in line with level seen in 2015; 2014: 74), while advances will decline in 2016 as the Bu Sulba development progresses, supporting cash flows for the year.

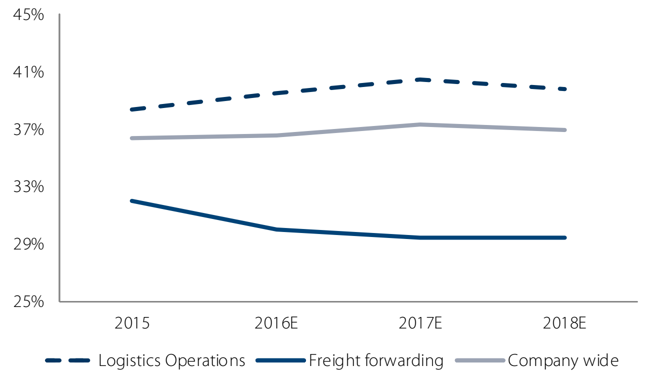
Financial outlook in charts

Revenues to grow 10.5% YoY in 2016



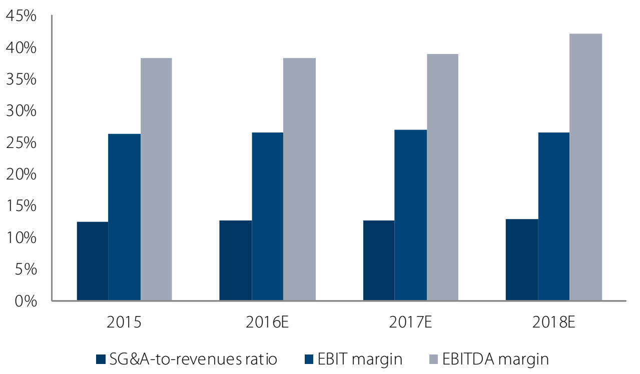
Source: GWC, SHUAA Capital

Gross margin by segment



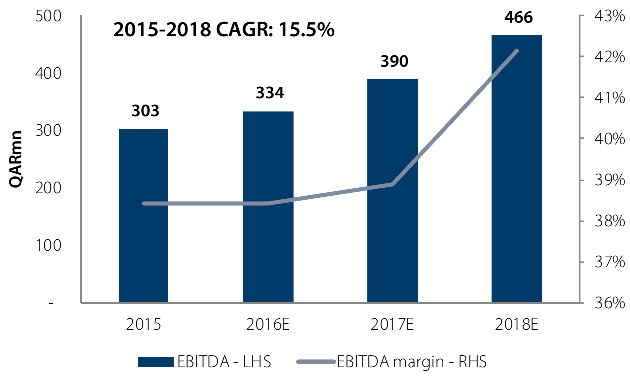
Source: GWC, SHUAA Capital

Stable SG&A-to-Rev ratio to lead to improving margins



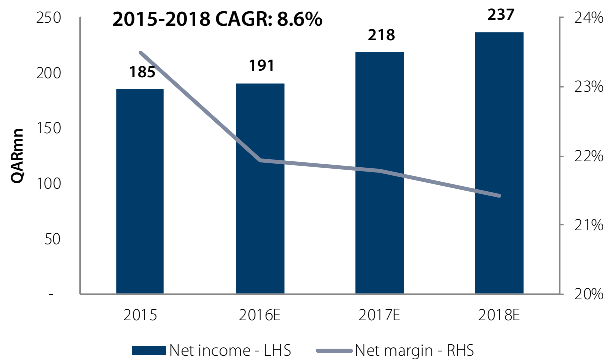
Source: GWC, SHUAA Capital

EBITDA growth expected to stay healthy



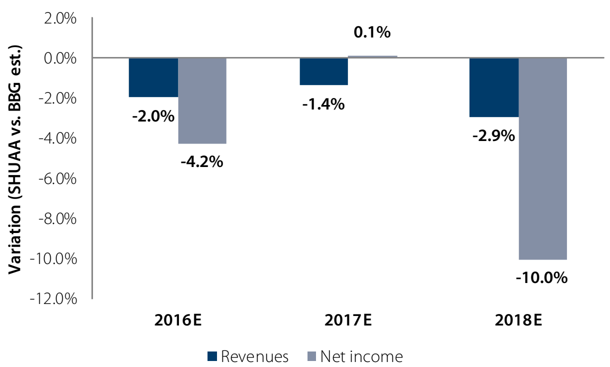
Source: GWC, SHUAA Capital

Net income to grow 3.1% in 2016



Source: GWC, SHUAA Capital

SHUAA vs. consensus estimates



Source: Bloomberg, SHUAA Capital

Financial Statements

Income Statement (QARmn)

Year to December	2015	2016E	2017E	2018E
Logistics Operations	*535*	*600*	*714*	*800*
Freight forwarding	*253*	*270*	*288*	*305*
Revenue	**788**	**870**	**1,002**	**1,105**
Direct costs	(501)	(552)	(628)	(697)
Gross Profit	**286**	**318**	**374**	**409**
Other income, net	19	22	24	25
Administrative and other expenses	(98)	(110)	(127)	(142)
EBIT	**208**	**230**	**271**	**293**
EBITDA	**303**	**334**	**390**	**466**
Fair value gains on investment property	13	-	-	-
Finance costs, net	(35)	(40)	(53)	(56)
Net Profit for the year	**185**	**191**	**218**	**237**
EPS	**3.16**	**3.26**	**3.73**	**4.04**
DPS	**1.50**	**1.55**	**1.70**	**1.85**

Source: GWC, SHUAA Capital

Balance Sheet (QARmn)

Year to December	2015	2016E	2017E	2018E
Inventories	9	10	11	13
Trade and other receivables	513	462	487	512
Cash and cash equivalents	586	623	673	899
Total Current Assets	**1,109**	**1,095**	**1,172**	**1,424**
Property, plant and equipment	1,306	1,428	2,436	2,379
Capital work-in-progress	251	931	-	-
Investment property	186	186	186	186
Intangible assets and goodwill	129	123	117	112
Total Non-Current Assets	**1,872**	**2,668**	**2,740**	**2,677**
TOTAL ASSETS	**2,981**	**3,763**	**3,912**	**4,101**
Loans and borrowings	142	120	102	105
Trade and other payables	177	181	199	227
Total Current liabilities	**319**	**301**	**302**	**332**
Loans and borrowings	1,232	1,932	1,952	1,972
Provision for employees' end of service benefits	23	24	25	26
Total Non-Current Liabilities	**1,254**	**1,955**	**1,977**	**1,998**
TOTAL LIABILITIES	**1,573**	**2,257**	**2,278**	**2,330**
Share capital	476	586	586	586
Other reserves	935	924	1,051	1,188
Equity attributable to owners of the Company	**1,411**	**1,510**	**1,637**	**1,774**
Non-controlling interests	(4)	(4)	(4)	(4)
TOTAL SHAREHOLDERS' EQUITY	**1,407**	**1,506**	**1,633**	**1,771**

Source: GWC, SHUAA Capital

Key Ratios

Year to December	2015	2016E	2017E	2018E
Growth				
Revenues	20%	10%	15%	10%
Gross profit	27%	11%	18%	9%
EBITDA	25%	10%	17%	20%
Net profit	132%	103%	114%	109%
Shareholders' equity	62%	7%	8%	8%
Total assets	42%	26%	4%	5%
Margins & Profitability				
Gross profit margin	36%	37%	37%	37%
EBITDA margin	38%	38%	39%	42%
Operating profit margin	26%	26%	27%	26%
Net profit margin	23%	22%	22%	21%
RoAE	16%	13%	14%	14%
RoAA	7%	6%	6%	6%
Leverage				
Net cash/(debt) (QARmn)	(787)	(1,429)	(1,380)	(1,178)
Debt-to-equity	98%	136%	126%	117%
Valuation				
EPS (QAR)	3.2	3.3	3.7	4.0
BVPS (QAR)	24.0	25.7	27.9	30.2
P/E	18.3	17.7	15.5	14.3
Fair value based P/E	19.3	18.8	16.4	15.1
EV/EBITDA	14.5	13.1	11.3	9.4
FV based EV/EBITDA	15.1	13.7	11.8	9.8
EV/Sales	5.6	5.0	4.4	4.0
P/B	2.4	2.2	2.1	1.9
Dividend yield	2.6%	2.7%	2.9%	3.2%

Source: GWC, SHUAA Capital

Research

Asjad Yahya, CFA
+9714 3199 768
ayahya@shuaa.com

Wasi Hassan
+9714 3199 769
whassan@shuaa.com

Ankit Gupta, CFA
+9714 3199 767
agupta@shuaa.com

Client Services:

800 SHUAA (74822) - UAE only
+971 (4) 319-9777 – International
clientservices@shuaa.com

Sales Trading Desk:

+971 (4) 319-9700
tradingdesk@shuaa.com