

## Gulf Warehousing Company (GWCS)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR41.15	Target Price	QR41.83
Implied Upside	1.64%		

### Qatar's Logistics Leader

GWCS is the market leader and the only recognized player in the Qatari logistics market. It benefits from the Qatar growth story and has recently embarked on aggressive debt-financed expansions that will more than double its bottom-line and ROE over the next four years. However, valuation appears more than fair and hence we initiate coverage with a Market Perform rating and a target price of QR41.83.

#### Highlights

- GWCS offers an attractive growth story.** Being the dominant player in the domestic logistics market, we believe GWCS represents a highly compelling longer-term growth story. We estimate the combination of LVQ and Imdad, along with traditional revenue drivers, to drive top-line and bottom-line CAGRs of 21.8% and 24.9%, respectively, over the next four years (2011-2015).
- Low penetration levels imply significant opportunity.** According to industry estimates, the total Qatari logistics market is valued at QR20bn. Out of this, only 10% is outsourced (outsourcing in the UAE is around 25% while in developed markets it is approximately 45%). The logistics market is expected to be valued at QR27bn by 2015, with 15% of this market being outsourced. GWCS is well positioned to benefit in this growth scenario.
- More than plain vanilla warehousing.** GWCS is offering 3PL as well as 4PL services with state of the art warehousing facilities and increased client focus. The recent (2011) acquisition of Agility Qatar has allowed the firm to benefit from the intellectual knowledge prevalent in the international logistics market.
- Imdad – one window solution to caterers and hoteliers.** Imdad provides the firm with revenue diversification as well as strong contribution to top-line and bottom-line growth. We are modeling Imdad's top-line to post a CAGR of 45.1% over the next four years (2011-2015).

#### Catalysts

- LVQ to provide sustainable growth until 2015.** LVQ is coming online in phases. Hence, investors can expect an improvement in earnings until 2015.
- Imdad anchor partner and regular newsflow.** GWCS is trying to bring an anchor partner in Imdad, who would guarantee regular sales revenue to the firm. Success in finding such a strategic partner should help lower the overall risk profile of the firm. Investors can expect regular newsflow from Imdad, as the company secures new contracts from its target market.

#### Recommendation, Valuation and Risks

- Recommendation and valuation: We rate GWCS a Market Perform with a price target of QR41.83** using the discounted cash flow (DCF) valuation method. Our target price implies an upside of 1.64% from the current price.
- Risks:** 1) Expected growth from Imdad does not materialize; 2) Low occupancy in LVQ; 3) Entry of new players and 4) Global economic issues.

#### Key Financial Data and Estimates

QR mn	FY2010	FY2011	FY2012e	FY2013e	FY2014e
Revenue	88	420	501	615	757
EPS (QR)*	1.29	1.56	1.78	2.34	2.84
P/E (x)	32.0	26.4	23.2	17.6	14.5
EV/EBITDA (x)	44.7	19.1	16.7	14.0	12.5

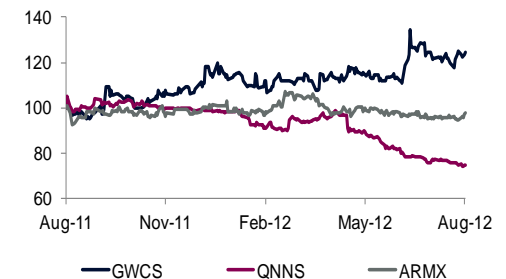
Source: Company data, QNBFS estimates; Note: EPS based on current number of shares

#### Key Data:

Bloomberg Ticker	GWCS QD
ADR/GDR Ticker	N/A
ISIN	QA000A0KD6H9
Sector*	Transportation
52wk High/52wk Low (QR)	44.75/30.95
3-m Average Volume	116,372
Mkt. Cap. (\$ bn/QR bn)	0.4/1.6
Shares Outstanding (mn)	39.6
FO Limit* (%)	24.9
Current FO* (%)	24.1
1-Year Total Return (%)	28.84
Fiscal Year End	Dec. 31

Source: Bloomberg (as of August 02, 2012), \*Qatar Exchange (as of August 02, 2012); Note: FO is foreign ownership

#### Relative Price Performance vs. Peers



Source: Bloomberg; Note: QNNS is Milaha and ARMX is Aramex

#### Relative Price Performance vs. Market



Source: Bloomberg; Note: QEAS Index is Qatar Allshare Index and QTRN is Qatar Allshare Transportation Index

#### Abdullah Amin, CFA

+974 4476 6569  
abdullah.amin@qnbfs.com.qa

#### Saugata Sarkar

+974 4476 6534  
saugata.sarkar@qnbfs.com.qa

## Executive Summary

### GWCS Offers an Attractive Growth Story

**Being the dominant player in the Qatari logistics market, we believe GWCS represents a highly compelling longer-term growth story.** The company is in the enviable position of being able to drive growth across all of its segments. We estimate the combination of Logistics Village Qatar (LVQ) and Imdad, along with traditional revenue drivers, to drive top-line and bottom-line compound annual growth rates (CAGRs) of 21.8% and 24.9%, respectively, over the next four years (2011-2015). LVQ and Imdad will drive GWCS' growth, while other operating segments should also benefit from increased business activity.

**LVQ is strategically located within 15 kilometers (km) of the seaport, and is 18 km from the airport and just 2 km from Qatar's main industrial area.** This strategic location, coupled with the host of facilities being offered to clients, should result in LVQ operating close to its full capacity. LVQ is technically a property rental business, wherein GWCS will lease out space to clients for 5 to 10 years. A major portion of phase 1 is dedicated to internal usage. Phase 2A became operational in April 2012. Due to the completion of phases 1 and 2A (phase 2B in October 2012), LVQ is set to improve its share of the company's total revenue to 11.6% in 2012 from 3.3% in 2011.

#### LVQ Outlay



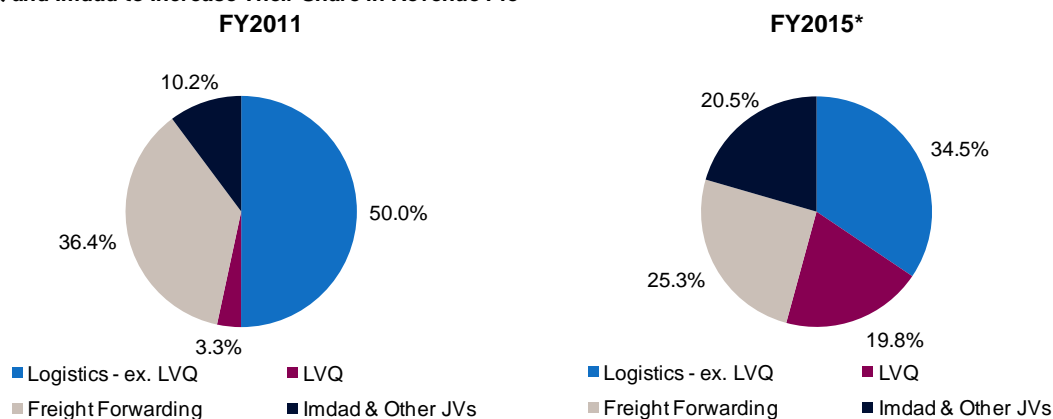
Source: Company data

**The LVQ business is also expected to have a positive impact on the existing logistics and freight forwarding operations of the firm.** We estimate revenue from the logistics segment to improve by a CAGR of 11.0% over the next four years (2011-15). Despite this increase, its share in the overall revenue pie will decrease from 50.0% in 2011 to 34.5% in 2015 as the LVQ and Imdad businesses grow at a higher rate. In line with the growing logistics segment, we believe GWCS can increase its freight forwarding revenue by a CAGR of 11.2% over the next four years (2011-15). Despite this increase, its share in the overall revenue mix will decrease from 36.4% in 2011 to 25.3% in 2015 as other business units (LVQ and Imdad) grow at a higher rate.

**Qatar should increase its share in global transit trade.** Qatar is ostensibly not a competitor to Dubai's position as a global trading hub. However, the country's proximity to the same routes and other Gulf Cooperation Council (GCC) markets does make it a viable option for transit trade. Qatar's large expansion of its port facilities, as well as its investments in developing other infrastructure facilities, should help the country in becoming a preferred hub for traders. The government is also planning to build smaller warehouses in different locations of the country to cater to the needs of small businesses. GWCS, with its proven track record, could be a beneficiary if concrete developments occur on this front. We note that we have not incorporated any impact from this business potential in our financial model.

**GWCS is also exploring options outside Qatar.** The company has recently indicated that it is looking at opportunities in Saudi Arabia and the United Arab Emirates (UAE). While these plans are still at a very nascent stage, we believe the company will try to leverage its existing relationships. We think the actual contribution from these markets will be small and will take some time to materialize. We await release of more details on this front and thus, have not incorporated any potential impact from these sources in our model.

### LVQ and Imdad to Increase Their Share in Revenue Pie



Source: Company data, \*QNBFS estimates

### Low Penetration Levels Imply Huge Opportunity

**As the Qatari market moves from managing its warehouses and logistics to outsourcing, we believe GWCS can increase its market share significantly.** The logistics industry is growing due to Qatar's strong business environment as the country aims to become a key regional player in the trade industry. Qatar is targeting to become a major entry point for re-export of goods in the global market, which will benefit the logistics industry. According to industry estimates, the total logistics market of Qatar is QR20bn. Out of this, only 10% is outsourced (outsourcing in the UAE is around 25% while in developed markets it is approximately 45%). The logistics market is expected to increase to QR27bn by 2015, with 15% of this market being outsourced. GWCS is well positioned to benefit from the above growth scenario.

### Not Just Plain Vanilla Warehousing

**Technology plays an important role in the logistics industry; GWCS is bringing innovation and ease to the logistics market of Qatar.** GWCS is offering third-party logistics (3PL) as well as fourth-party logistics (4PL) services with state-of-the-art warehousing facilities and increased client focus. The warehouses are built to the latest specifications in the international logistics industry and offer temperature controlled, ambient and bulk storage, labeling and tagging, palletizing and other value-added services. The management software systems enable intermediaries to automate many of the steps involved in finding capacity, tendering loads, updating delivery status and other transactions. In our view, the recent (2011) acquisition of Agility Qatar has allowed the firm to benefit from the intellectual knowledge prevalent in the international logistics market.

### Imdad – One Window Solution to Caterers and Hoteliers

**Imdad provides the firm with revenue diversification as well as strong contribution to top-line and bottom-line growth.** We estimate this subsidiary's top-line to grow at a CAGR of 45.1% over the next four years (2011-2015). The base case model assumes that Imdad will be able to rope in an anchor partner, which will help provide stable recurring revenue to the tune of QR80mn per annum from 2014 (Please refer to the risk section for a more detailed analysis). According to industry estimates, segment market size is approximately QR3bn in Qatar, which is expected to grow in line with domestic GDP. Of this, QR1.5bn can be attributed to HoReCa (hotel, restaurant and catering), and super markets and other outlets drive the rest. We see Imdad aiming to be best in class in the HoReCa segment of the foodservice industry. Given the infancy of this market in Qatar, our assumptions are largely driven by the estimates provided by the firm. However, we would like to point out that Imdad is still in the learning curve phase and there is a chance that our market share estimates ultimately prove to be somewhat aggressive. For a detailed risk analysis overview, please refer to the risk section of the report.

### 1H2012 Results and Outlook for 2012

**GWCS posted net profit of QR40.5mn in 1H2012 vs. QR30.5mn in 1H2011, representing a growth of 32.5% YoY.** Revenue stood at QR230.5mn vs. QR191.5mn (growth of 20.4% YoY). Revenue from logistics operations increased to QR135.9mn vs. QR116.7mn. Others (Imdad) witnessed a significant uptick to QR19.3mn from QR6.4mn. Gross margin in 1H2012 improved to 31.5% from 28.5% in 1H2011, while net margin also improved to 17.0% from 15.8%, despite Imdad posting a loss of QR2.8mn. The improvement in margins can be attributed to LVQ. On the balance sheet side, total assets grew by 10.9% YTD. Total loans and borrowings increased by 44.2% YTD to QR607.8mn as GWCS leveraged its balance sheet for LVQ expansion.

Going forward, in 3Q2012, we estimate revenue will slightly suffer due to Ramadan as freight forwarding and other business activities historically have shown a propensity to slow down. In 4Q2012 we estimate activity to pick up again complemented by phase 2B coming online during the quarter. Overall, we expect quarterly profits to be in the range of QR18mn to QR21mn for the remaining quarters in 2012.

## Catalysts

### LVQ to Provide Sustainable Growth Until 2015

**LVQ should be a catalyst for growth.** The LVQ project is coming online in phases. Phase 2A came online in April 2012, which along with other segments improves 2012 net income by 14.0% YoY. Phase 3 will come online in 2Q2013 and we expect the overall net income to improve by 32.0% YoY in 2013. Phase 4 comes online in mid-2014 and contributes to the bottom-line growth of 2014 and 2015, in our view.

#### LVQ Progress Update

Phase	WH Area (sqm)	Operational Year	Number of Clients	Status
Phase 1	82,773	2011	23	100% Rented
Phase 2A	42,000	April 2012	10	95% Rented
Phase 2B	20,000	October 2012	3	20% Rented
Phase 3	92,758	2013	1	16% Rented, starts April 2013
Phase 4	100,000	2014		Planning Stage

Source: Company data

### Imdad Anchor Partner and Regular Newsflow

**GWCS is trying to bring an anchor partner in Imdad, who would guarantee regular sales revenue to the firm.** In our view, this strategic partner should be from one of the large existing/potential clients. Success in finding such a strategic partner should also help lower the overall risk profile of the firm. Investors can also expect regular newsflow from Imdad as the company secures new contracts from its target market. Imdad generates revenue from three sources: 1) Tenders and Events; 2) Trading and 3) the Prime Vendor Client Model. In the event model, the firm along with other players tender for short-term contracts (3-months to 1-year). The price is fixed and a large contract such as last year's Arab Games can boost revenue for that period (Imdad was the official supplier to Amwaj, the primary event caterer of Arab Games 2011). Investors need to remember that Qatar is fast becoming a hub for large international conference and events. This should afford the company plenty of opportunities to score significant contract wins in the future, in our view. In the trading model, Imdad provides clients with the required goods as and when needed (the company currently maintains a variety of goods for existing clients). Finally, in the client model Imdad becomes the outsourced agent for the client providing goods and services on long-term contracts, with the contracted prices reset periodically. Going forward, we believe investors can expect regular newsflow whenever Imdad is successful in a tender (depending on the clients' willingness to allow disclosure of such information). The next big event for the firm is likely to be the United Nations Conference on Climate Change in late 2012. Besides these large events, the company continues to apply regularly for smaller tenders and longer-term deals.

## Valuation

Our target price of QR41.83 per share implies an upside of 1.64% on the stock. We have arrived at the fair value of GWCS using the DCF valuation model. We account for the company's anticipated revenue growth from LVQ and Imdad along with the expected benefits emanating from the Agility Qatar acquisition. We generally factor in some additional lag time versus management guidance of capacity increases in order to be conservative. We explicitly model cash flows until 2018 and use a terminal growth rate of 3.0%.

### DCF Valuation

Particulars	Fair Value of Equity (QR mn)	Fair Value per Share (QR)
Cumulative PV of FCFF	318	8.03
PV of Terminal Value	1,890	47.69
<b>PV of Cash Flows</b>	<b>2,208</b>	<b>55.72</b>
<i>Add:</i>		
Cash Balances (June 2012)	57	1.44
Investments (June 2012)	0	0.00
<i>Less:</i>		
Debt Balances (June 2012)	608	15.34
<b>Fair Value of Equity</b>	<b>1,658</b>	<b>41.83</b>

Source: QNBFS estimates

Our WACC assumptions are conservative. For weighted average cost of capital (WACC) calculations, we have assigned a weight of 60% to equity and 40% to debt assuming the target capital structure. We have assumed an equity risk premium of 8.0% and a beta of 1.10 (higher than the historical beta of 0.98 to adjust for higher risk given that traction in LVQ and Imdad remains uncertain). This results in a WACC of 9.78%.

### WACC Analysis

WACC Calculations	
Risk Free Rate (Coupon for 10-Year Government Bonds) (%)	4.50
Risk Premium (%)	8.00
Beta	1.10
<b>Cost of Equity (%)</b>	<b>13.30</b>
<b>Cost of Debt (%)</b>	<b>4.50</b>
Tax Rate (%)	0.0
<b>WACC (%)</b>	<b>9.78</b>

Source: Bloomberg, QNBFS estimates

### Sensitivity Analysis

We have performed a sensitivity analysis on the WACC and terminal growth rate. The results of our sensitivity analysis are depicted below:

#### Sensitivity Analysis

WACC	Terminal Growth Rate				
	1.00%	2.00%	3.0%	4.00%	5.00%
7.78%	40.90	49.53	61.78	80.50	112.70
8.78%	34.89	41.36	50.08	62.44	81.33
9.78%	30.25	35.29	41.83	50.62	63.09
10.78%	26.56	30.61	35.70	42.29	51.16
11.78%	23.55	26.88	30.96	36.10	42.75

Source: QNBFS estimates

## Relative Valuation

**GWCS to remain at a premium to peers.** The company trades at a premium to its regional and global peers. Even with the strong growth in earnings, the company should remain at premium to peers for the next couple of years.

### Peer Group Valuation – Transportation and Warehousing

Company Name	Industry	P/E (x)		P/B (x)	
		CY12e	CY13e	CY12e	CY13e
Gulf Warehousing*	Storage/Warehousing	23.2	17.6	2.3	2.3
Milaha	Transport-Marine	8.0	7.2	0.6	0.6
Aramex	Transport-Services	10.5	9.3	1.3	1.2
Mobile Mini Inc.	Storage/Warehousing	17.4	12.7	0.8	0.8
Northern Logistic Property ASA	Storage/Warehousing	5.7	5.4	0.5	0.5
Zhongchu Development	Storage/Warehousing	15.3	12.7	1.5	1.4
Sinotrans	Transport-Services	11.7	9.9	1.1	1.0
TNT Express NV	Transport-Services	34.2	22.1	1.7	1.6
UPS	Transport-Services	16.4	14.4	8.7	7.5
PostNI NV	Transport-Services	5.1	4.8	1.3	1.5
Deutsche Post AG	Transport-Services	12.3	11.0	1.6	1.5
Kuehne + Nagel International AG	Transport-Services	21.9	18.8	5.4	4.8
Expeditors International	Transport-Services	19.8	17.0	3.4	3.2
Panalpina Welttransport	Transport-Services	25.4	16.6	2.5	2.3

Source: Bloomberg, \*QNBFS estimates

### Peer Group Valuation – Wholesale Food Distribution

Company Name	Industry	P/E (x)		P/B (x)	
		CY12e	CY13e	CY12e	CY13e
Emperia Holding SA	Food & Staples Retailing	10.3	11.7	0.9	0.8
Fresh Del Monte Produce Inc.	Food Products	10.4	10.1	0.8	0.8
Fyffes PLC	Food & Staples Retailing	6.5	6.6	0.9	0.9
Hyundai Greenfood Co.	Multiline Retail	15.6	12.7	1.1	1.0
PinguinLutosa SA/NV	Food Products	8.6	8.8	0.6	0.7
Podravka	Food Products	9.2	7.7	0.6	0.6
Sligro Food Group NV	Food & Staples Retailing	11.3	10.5	1.5	1.4
Total Produce PLC	Food & Staples Retailing	5.2	5.0	0.8	0.6

Source: Bloomberg

## Risks to Our Target Price

- Expected growth from Imdad does not materialize:** Imdad along with its huge potential also brings volatility and risk to GWCS' earnings. We note Imdad is a low-margin business relative to the other segments of the company. Imdad has ventured into an uncharted territory as far as the GCC region is concerned. Existing purchase/procurement managers could view Imdad as a threat, which could impact the company's traction in its prime vendor client offering. The company also bears the price risk when it comes to short-term tenders. Furthermore, the event side of the business also brings volatility to the top-line and profitability on a QoQ basis. For example in 4Q2011, Imdad recorded revenue of QR23mn (including QR9mn associated to the Pan Arab games). Subsequently in 1Q2012, Imdad's revenue dropped to QR12mn. Unanticipated increases in the price of food products can also negatively affect the bottom-line. We believe the company will eventually have to invest in expensive world-class technology to grow the Imdad model. Such investments may not make commercial sense in the near-term and indeed, we have not factored in these spending initiatives in our model. The lack of such investments could restrict Imdad's growth potential.
  - Scenario Analysis – Imdad fails to rope in an anchor partner:** As mentioned previously, Imdad's ability to find an anchor partner could well determine its future momentum. Therefore, in this case, we have assumed Imdad's revenue to grow at a CAGR of 20% (2011-2015) vs. 45.1% in the base case scenario. As a result, the overall top-line of the firm would reach QR823.7mn in 2015 vs. QR924.7mn in the base case scenario. However, given that Imdad is a low margin segment of the firm, the bottom-line impact will be relatively less – we expect profit to equity shareholders' in 2015 to come in at QR143.3mn vs. QR150.4mn in the base case model. *The fair value in this scenario drops to QR39.21 vs. QR41.83 in the base case.*

**Scenario Analysis Reveals Lack of Traction in Imdad Could Lower EPS by 5% in 2015**

QR mn	FY2011	FY2012e	FY2013e	FY2014e	FY2015e	CAGR (%)
Revenue	420	501	594	695	824	18.4
Revenue – Base Case	420	501	615	757	925	21.8
Net Profit to Equity Holders	62	70	91	108	143	23.4
Net Profit to Equity Holders – Base Case	62	70	93	112	150	24.9

Source: Company data, QNBFS estimates

- LVQ suffers from lower-than-expected occupancy:** LVQ represents one of the largest risks to our forecasts. In our view, investors can expect significant downgrades in our estimates if close to full utilization levels are not achieved in LVQ. However, in our opinion, the probability of this happening is somewhat minimal. We note that the firm is already aggressively signing contracts with interested parties to lease this asset before completion.
  - Scenario Analysis – LVQ’s occupancy drops to 75% (vs. 100% in the base case):** In this scenario, we have assumed LVQ’s revenue to grow by a CAGR of 76.9% (2011-2015) vs. 90.1% in the base case scenario. The combined top-line of the firm would reach QR879.0mn in 2015 vs. QR924.7mn in the base case scenario. However, considering that LVQ is a higher-margin segment of the firm, the bottom-line impact will be greater than the previous Imdad-related scenario. Thus, in this scenario, our modeled profit to equity shareholders’ falls to QR110.1mn in 2015 vs. QR150.4mn in the base case model. *The fair value in this case drops to QR29.25 vs. QR41.83 in the base case.*

**Scenario Analysis Reveals Lack of Traction in Imdad Could Lower EPS by 27% in 2015**

QR mn	FY2011	FY2012e	FY2013e	FY2014e	FY2015e	CAGR (%)
Revenue	420	495	603	737	879	20.3
Revenue – Base Case	420	501	615	757	925	21.8
Net Profit to Equity Holders	62	65	82	95	110	15.6
Net Profit to Equity Holders – Base Case	62	70	93	112	150	24.9

Source: Company data, QNBFS estimates

- Increased leverage could heighten balance sheet risk:** GWCS is leveraging its balance sheet to improve its return on equity (ROE). However, increasing debt comes at the expense of greater risk to the balance sheet. An earlier-than-estimated increase in interest rates could negatively affect the bottom-line as well as potentially reduce GWCS’ dividend payout ratio.
- Entry of new players:** GWCS is the only major logistics operator in Qatar. Although, global operators such as DHL have a presence, none of them offer warehousing facilities and have limited market shares in Qatar. This could attract other players from the region to expand their footprint in Qatar.
- Global economic issues:** The logistics and warehousing business is highly correlated with the region’s economic development. Therefore, any downturn in the Qatari or the GCC economy could affect the company’s financial performance. The Qatari and the overall GCC economy could be impacted by a fall in crude oil and natural gas prices. Economic issues related to the Eurozone crisis could also adversely impact the company’s performance.

## Logistics and Supply Chain Management Industry

**In the GCC, the logistics and supply chain management industry has witnessed significant expansion in the last few years.** This expansion was primarily driven by industrial development and backed by the region's solid economic growth. Moreover, countries in the GCC are geographically favorably located and possess key airports and seaports. The region is a very important location for logistics activities thanks to its access to markets in Asia and Africa, and the evolution of global hubs, such as Dubai, which connect Asia with Europe and North Africa. This is complemented by hydrocarbon exports and a significant expatriate population that stimulate foreign trade movement in the region. According to Transport Intelligence, the UAE, Saudi Arabia and Qatar figure in the top-10 potential logistics hubs among other emerging countries, such as India, Brazil and Russia.

**Qatar is on track to become a regional logistics and freight forwarding powerhouse.** According to Business Monitor International (BMI), the long-term prospects of Qatar's freight transportation sector look extremely positive following the country's rapid development and long-term infrastructure development plans. Qatar plans to increase its container and dry bulk shipping presence through the development of the New Doha Port. Qatar is also expanding its Mesaieed port while completing work on the New Doha International Airport. The new airport is being pitched as the principle gateway for the FIFA World Cup 2022. With significant growth tailwinds benefiting the sector, industry sources continue to expect a substantial increase in the country's logistics and freight forwarding volumes until 2022.

**The logistics and supply chain management industry can be broadly classified into the following service segments:**

- **Warehousing:** Activities involving storage of goods on a large-scale in a systematic and orderly manner and making them available conveniently. Warehousing also means holding or preserving goods in large quantities from the time of their purchase or production until their actual use or sale. In 3PL, the outsourced service provider stores and manages the goods. In 4PL, the outsourced provider manages the client warehouse. Another model is the lease model, in which the firm creates and rents out spaces to clients (LVQ falls under this category).
- **Freight Forwarding:** Organizing of delivery of heavy material and containers of more than 50 kg in weight by air, sea or land freight. Freight forwarding also includes logistical services with modern information and communication technology, handling or storage of goods and de facto total supply chain management.
- **Transportation and Others:** These services include container haulage, distribution, leasing of trucks, record management services, moving and relocation services and asset management.



## Company Background

### Company Description

**Qatar's logistics one-stop shop.** Established in 2004, Doha-based GWCS is engaged in providing a host of services such as warehousing, freight forwarding, transportation, international relocation, records management and supply chain consulting solutions to various industries. In 2011, the company acquired a 100% stake in Agility-Qatar and set up Imdad Sourcing & Logistics Group WLL (and retained a 51% stake), which is engaged in the business of trading in foodstuffs and other consumables. Post the acquisition, Agility Qatar owns an 18.1% stake in GWCS, while a Qatari institution holds 18.8%; this leaves 63.2% for the public. As of 2011, the company's top-line mix was comprised of 53.4% (logistics operations); 36.4% (freight forwarding) and 10.2% (others including Imdad). The company has five major warehouses located in key industrial areas, of which two provide frozen storage facilities. GWCS operates a fleet of more than 400 trucks and over 700 trailers, and provides freight forwarding services and transportation services to clients. Being in the services industry, GWCS holds a number of International Organization for Standardization (ISO) certificates ranging from general management to health and safety.

### Company Snapshot

Number of Vehicles and Trailers	1,111	Storage Capacity – Pallets Locations	133**
Historical Revenue 4-Year CAGR (%)	74.4	Enterprise Value* (QR bn)	2.2

Source: Company data, \*Bloomberg (as of August 02, 2012); \*\*Note: In thousands

### Company History

**A focused player in the logistics supply chain, GWCS aims to be a leading player in the GCC.** The company has emerged as one of the leading 3PL services providers in Qatar. GWCS sees a QR4bn market in Qatar for third party logistics to be tapped by 2015, of which it plans to have a significant share, mainly using its association with Kuwait's Agility, which is an international logistics leader, especially in the emerging markets.

### Agility's Global Network



Source: Agility

**GWCS was listed on the Qatar Exchange (QE) in 2004**, with a single warehouse and a few vehicles. Since then, the firm has grown to become the leading warehousing and logistics provider in the country. GWCS has even entered specialized logistics and warehousing services such as the storage of hazardous chemicals at Ras Laffan. LVQ, an integrated one million square-meter logistics facility, has propelled the company to grow organically and become the leading brand in Qatar's logistics market. Phase 1 of the project became fully operational in 2011 and consists of eight new warehouses, a container yard and storage facility, a fully equipped repair depot for maintaining a fleet of vehicles and a data center. Phase 2A came online in April 2012 and phases 3 and 4 are expected to be completed in 2013 and 2014, respectively. Work on the entire project should be finished by late-2014.

### Management Team

Name	Designation
Mohammed Ismail Al Emadi	Chairman
Sh. Fahed Bin Hamad Bin Jasim Al Thani	Vice Chairman
Ranjeev Menon	Group CEO
Basem Chbaklo	Managing Director
Rajeswar Govindan	CFO

Source: Company data

## Recent Project and Contract Announcements

Date	Contract Value	Contract Details
25-Jun.-12	N/A	GWCS entered into an exclusive agreement for covering Qatar with ELTETE Middle East's carton board pallets and various other packaging material used in the transportation industry.
9-Nov.-11	N/A	The company was awarded a contract to manage the storage of chemical materials used in the Pearl gas-to-liquids (GTL) project at Ras Laffan.
10-Oct.-11	N/A	GWCS entered into a 3-year agreement with Darwish Corporate for storage and distribution.
17-Jul.-11	N/A	The company inked a contract with Lulu Hypermarkets for using a 15,000-square meter (sqm) warehousing facility at LVQ.
10-Jul.-11	N/A	GWCS launched its largest warehousing facility in LVQ (33,000 sqm) dubbed 33k. The warehouse storage capacity is 36,000 pallet locations and 33k was already at 80% occupancy in terms of pallet positions.

Source: Company data

## M&A Announcements (Since 2011)

Date	Contract Value	Contract Details
2011	\$0.3mn	GWCS set up a 51% stake in Imdad Sourcing & Logistics Group.
1-Jan.-11	\$89.7mn	The company acquired a 100% stake in Agility WLL with 14.6mn shares at QR20.50 per share, QR16.1mn in cash and settlement of QR10.6mn in loans.

Source: Company data

## Subsidiaries and Business Segments

The company has also opened a branch in the UAE and Saudi Arabia.

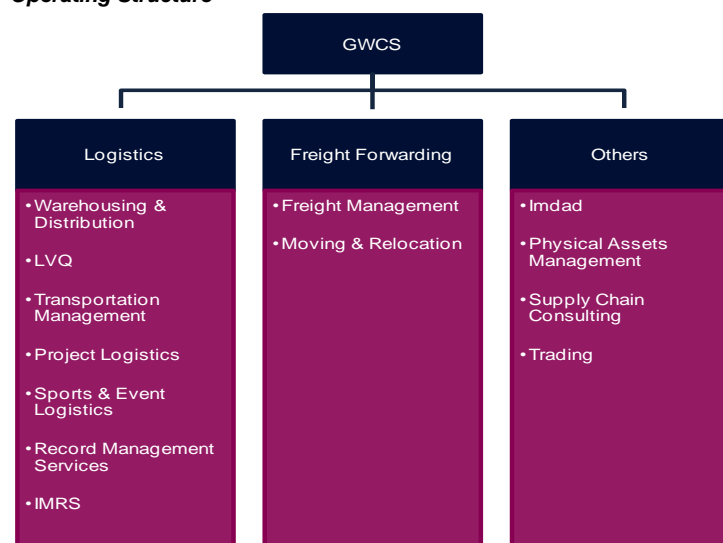
### Subsidiaries and Branches

Subsidiary/Branch	Principal Activities	GWCS' Effective Ownership
Agility WLL	Logistics & Transportation	100%
GWC Chemical WLL	Chemicals Trading and Transportation	100%
PWC Special Co WLL	Special Projects	100%
GWC Global Transport LLC	Warehousing and Transportation	100%
Imdad Sourcing and Logistics Group WLL	Trading in Foodstuffs and Other Consumables	51%
GWC Saudi Arabia	Logistics & Transportation	100%

Source: Company data

## Business Segments

### Operating Structure



Source: Company data

The company divides its operations into three segments for management purposes:

**Logistics operations are the largest contributor to GWCS' revenue pie.** This segment includes storage (warehousing), handling, packing and transportation.

- **Warehousing and Distribution** – Services include 3PL and 4PL contract logistics services, frozen and bulk storage, retail distribution, inventory management, pick and pack, promotional packing, labeling & tagging, palletizing, reverse logistics, etc. GWC generates the largest portion of revenue from its warehousing and storage businesses.
- **Logistics Village Qatar** – LVQ will occupy 1million sqm and features a gamut of facilities and capabilities.
- **Hazmat Warehousing** – Services comprise of storage and distribution, sourcing and supply of chemicals and inventory management.
- **Transportation** – With more than 400 transport vehicles, transportation services include local and international transport, cargo consolidation, load tracking, door-to-door transportation and container haulage.
- **Project Logistics** – The services under this sub-segment deal with project management, logistics plans and site surveys, road, sea and air transport, warehousing and lay-down facilities, procurement and expediting, heavy lift and oversize cargoes, customs clearance and charter services. This sub-segment currently caters to Qatar's oil and gas and marine industry.
- **Sports and Event Logistics** – The company has the experience and expertise to provide logistics support for indoor and outdoor championship games, other sporting events, conferences and exhibitions and events.
- **Records Management Services (RMS)** – GWCS is a leader in the RMS space in Qatar. In addition to physical archiving solutions, the company also offers digital storage and archiving services through high-speed document scanning and on-demand retrieval.

**Freight forwarding operations is GWCS' second-largest revenue segment.** This segment includes freight services through land, air and sea.

- **Freight Management** – Services include freight through air, sea or road, customs clearance, overland transportation and high value and hazardous cargo transportation.
- **Moving and Relocation** – GWCS provides both international and national cargo relocation services. Services provided are comprehensive and run the gamut from comprehensive insurance to using high-quality packing materials and providing consulting services while moving in or out of the country.

**Others include trading and other activities.**

- **Imdad** – Imdad is GWCS' food consolidator business and dominating the other/JV sub-segment.
- **Physical Assets Management** – These services entail physical asset tracking, asset bar-coding, asset tagging, asset management software implementation, asset planning and budgeting and disaster recovery.
- **Supply Chain Consulting** – The company, through its supply chain offerings, helps its customers synchronize the flows of goods, information and funds. The growing supply chain portfolio of GWCS uses the company's pan-Qatar presence and infrastructure, wide customer-base and network management expertise to design customized solutions.

## Key Forecasts

### Revenue

We project overall revenue to grow at a CAGR of 21.8% over 2011-2015. The key contributors will be LVQ and Imdad. We expect LVQ revenue to increase to QR183mn in 2015 from QR14mn in 2011. For Imdad's top-line, we are modeling in QR190mn at the end of 2015 vs. QR43mn in 2011. Our assumptions are slightly conservative when compared to company guidance.

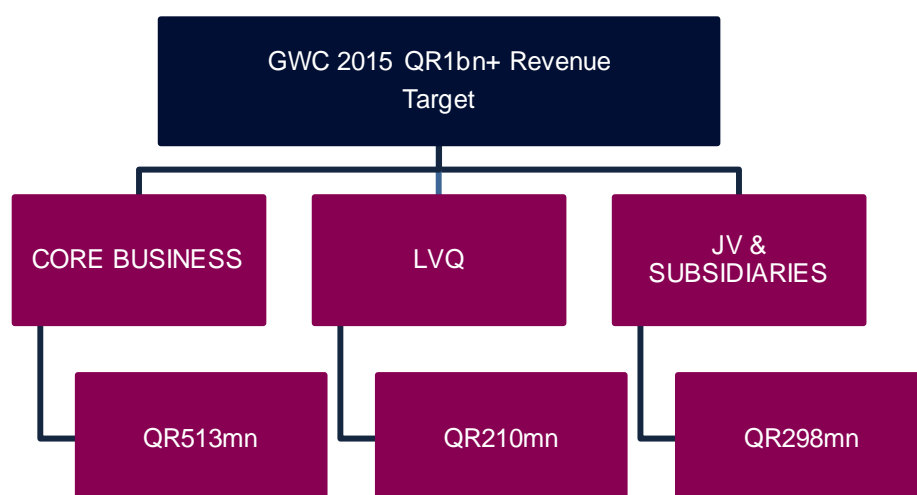
#### Revenue Breakdown – Our Assumptions are Conservative vs. Guidance

QR mn	FY11	FY12e	FY13e	FY14e	FY15e
Logistics Operations (incl. LVQ)	224	289	348	409	501
Freight Forwarding Income	153	161	185	212	234
Others (Imdad)	43	51	82	135	190
<b>Total</b>	<b>420</b>	<b>501</b>	<b>615</b>	<b>757</b>	<b>925</b>

Source: Company data, QNBFS estimates

We expect top-line from the logistics business (excluding LVQ) to increase to QR319mn in 2015 from QR210 in 2011. For the freight forwarding segment, we estimate revenue to grow to QR234mn in 2015 from QR153mn in 2011. LVQ and Imdad will also give a boost to the freight forwarding business, in our view. We believe that contribution from LVQ will play a crucial role in GWCS' top-line growth. Phase I of LVQ became operational in 2011 and the company generated QR33mn (QR19mn internal billing) from this phase last year. GWCS has already rented 95% of phase 2A, which became operational in April 2012. The second part or phase 2B is expected to become operational by October 2012 and has been 20% rented out. Further, 16% of phase 3 has been leased out and is expected to become operational in April 2013; phase 3 is expected to generate QR56mn in 2015. LVQ also includes an open yard that covers an area of 400,000 square meters and 600 rooms, which should also contribute to the top-line and bottom-line growth.

#### Company Projects Total Revenue in Excess of QR1bn in 2015



Source: Company guidance

### Profitability

We expect gross profit and net profit to increase by CAGRs of 23.9% and 24.9%, respectively, for 2011-2015. This strong growth should augment the bottom-line to QR150.4mn in 2015. We note that our estimates are conservative relative to company guidance; the company expects net profit of QR182mn in 2015.

## Capacity

**Capacity additions will be driven by LVQ.** The construction of LVQ will be done in four phases. Out of this, phase 1 and phase 2A (124,773 square meters) have already become operational. Phase 2B is currently under construction with 20,000 square meters, and is expected to be completed in October 2012. Further, phase 3 with 92,758 square meters is expected to become operational in April 2013. The fourth and final phase is currently scheduled to be operational by 2014.

## Capital Expenditures

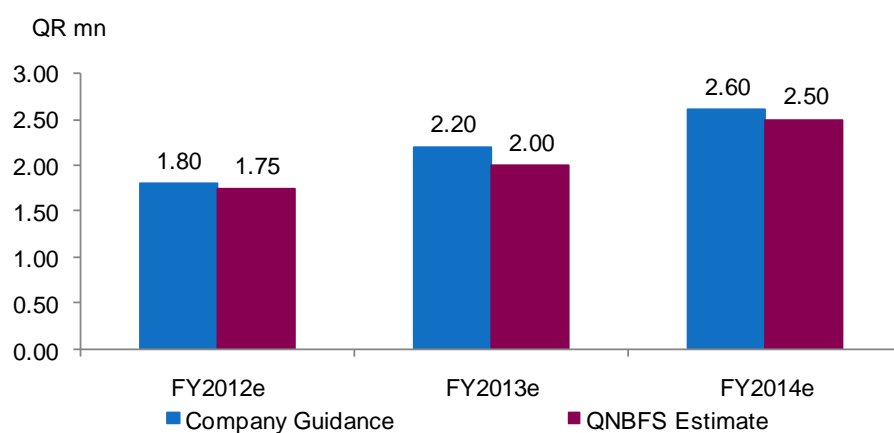
**The build-out of LVQ will drive capital expenditures (capex).** LVQ is expected to be the company's largest investment. Following GWCS' plan to complete about 70% of its construction related to LVQ during 2011, 2012 and 2013, we expect a major chunk of capital expenditure during these years. Post 2014, we expect capex to largely consist of maintenance and settle between QR40mn to QR60mn per year.

## Financial Position

### **New addition and augmented working capital cycle to boost operating cash flow.**

Net cash generated from operating activities will remain robust in 2012 at QR70.3mn and in 2013 at QR132.1mn (QR84.4mn in 2011). We expect ROE to improve from 9.0% in 2011 to 18.7% in 2015, as the company is leveraging its balance sheet while maintain a high dividend payout ratio. GWCS's interest coverage ratio stood at 4.9x in 2010 and improved to 10.9x in 2011. Going forward, between 2012 and 2016 we expect the interest coverage ratio to be in the range of 6.0x to 7.0x. We estimate the total debt of the firm to peak in 2014 to QR873.0mn from QR607.8mn at the end of June 2012. We are slightly more conservative in our cash dividends per share (DPS) forecast relative to company guidance.

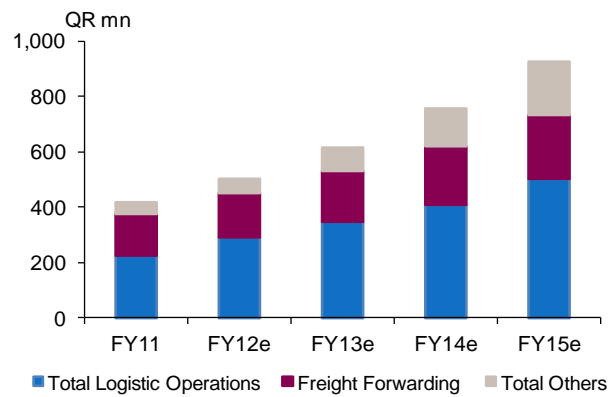
### **Dividend Payout Forecast (FY2012 to FY2014e)**



Source: Company guidance, \*QNBFS estimates

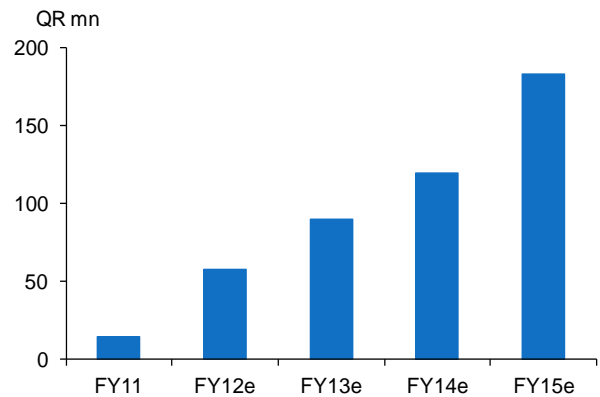
## Financial Analysis: Revenue, Returns and Capex

### Revenue by Segment



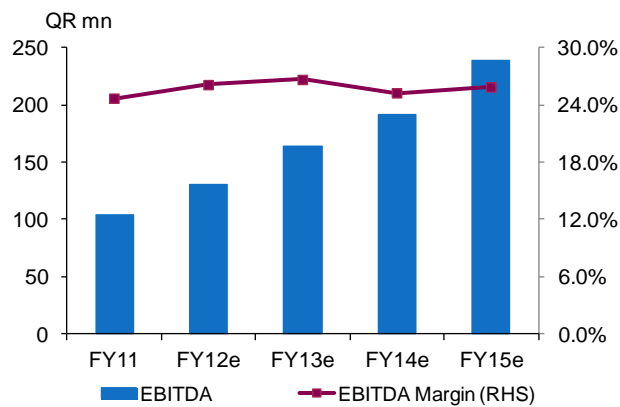
Source: Company data, QNBFS estimates

### LVQ Revenue Estimates



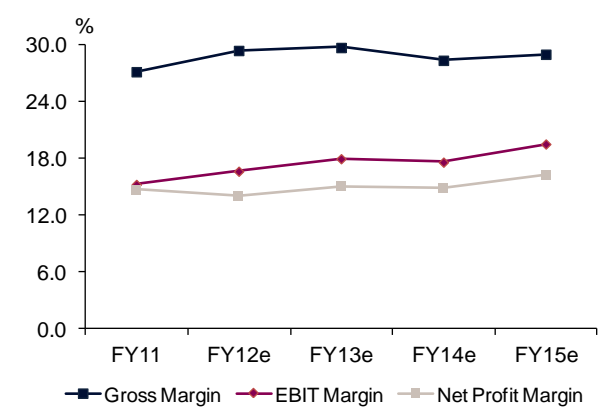
Source: Company data, QNBFS estimates

### EBITDA and EBITDA Margins



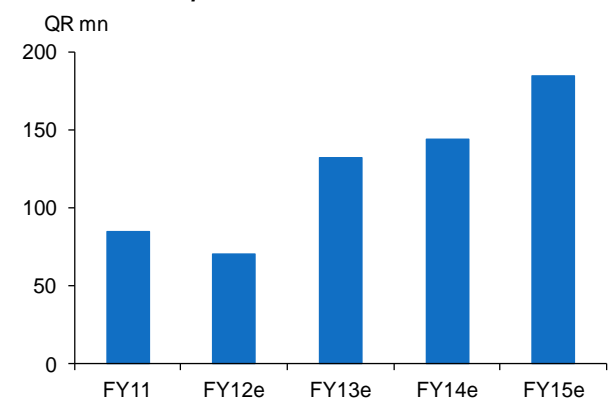
Source: Company data, QNBFS estimates

### Profitability



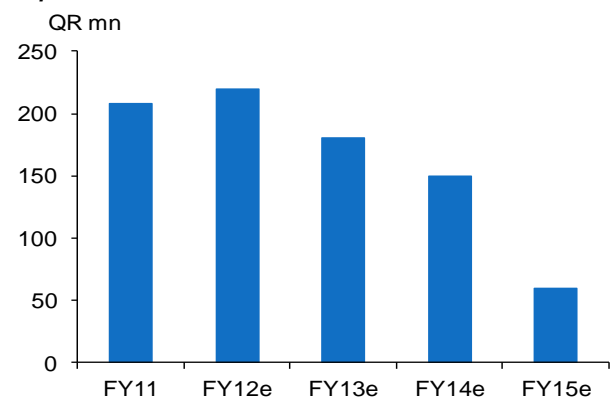
Source: Company data, QNBFS estimates

### Cash Flow from Operations



Source: Company data, QNBFS estimates

### Capex



Source: Company data, QNBFS estimates

## Detailed Financial Statements

### Income Statement

Figures in QR mn	FY2010	FY2011	FY2012e	FY2013e	FY2014e	FY2015e
<b>Revenue</b>	<b>88</b>	<b>420</b>	<b>501</b>	<b>615</b>	<b>757</b>	<b>925</b>
Direct Costs	(55)	(305)	(353)	(432)	(542)	(656)
<b>Gross Profit</b>	<b>33</b>	<b>114</b>	<b>148</b>	<b>183</b>	<b>215</b>	<b>269</b>
Other Income	6	2	1	0	0	0
Valuation Gains	36	4	0	0	0	0
Staff Costs	(8)	(22)	(30)	(35)	(40)	(42)
Net Impairment Loss	(1)	(1)	(1)	(1)	(0)	(0)
G&A Expenses	(10)	(30)	(34)	(38)	(42)	(46)
<b>EBITDA</b>	<b>39</b>	<b>104</b>	<b>131</b>	<b>164</b>	<b>191</b>	<b>239</b>
Finance Costs	(4)	(6)	(13)	(17)	(21)	(30)
<b>Profit</b>	<b>51</b>	<b>62</b>	<b>70</b>	<b>93</b>	<b>112</b>	<b>150</b>
Attributable to:						
<b>Owners of the Parent</b>	<b>51</b>	<b>62</b>	<b>70</b>	<b>93</b>	<b>112</b>	<b>150</b>
Non-Controlling Interest	0	0	0	0	0	0
<b>EPS (QR)</b>	<b>1.29</b>	<b>1.56</b>	<b>1.78</b>	<b>2.34</b>	<b>2.84</b>	<b>3.79</b>

Source: Company data, QNBFS estimates; Note: EPS based on current number of shares

### Balance Sheet

Figures in QR mn	FY2010	FY2011	FY2012e	FY2013e	FY2014e	FY2015e
<b>Non-Current Assets</b>						
Property, Plant and Equipment	419	666	845	978	1076	1083
Investment Properties	42	95	95	95	95	95
Intangible Assets	0	155	148	143	137	131
Available-for-Sale Investments	3	2	0	0	0	0
<b>Total Non-Current Assets</b>	<b>463</b>	<b>918</b>	<b>1,089</b>	<b>1,216</b>	<b>1,308</b>	<b>1,310</b>
<b>Current Assets</b>						
Inventories	1	10	17	21	22	23
Trade and Other Receivables	48	240	264	277	291	305
Bank Balances and Cash	97	81	123	144	122	113
<b>Total Current Assets</b>	<b>146</b>	<b>331</b>	<b>403</b>	<b>442</b>	<b>434</b>	<b>440</b>
<b>Total Assets</b>	<b>609</b>	<b>1,249</b>	<b>1,493</b>	<b>1,658</b>	<b>1,743</b>	<b>1,750</b>
<b>Equity</b>						
Share Capital	250	396	396	396	396	396
Legal Reserves	68	221	221	221	221	221
Changes in Fair Value	(0)	(1)	0	0	0	0
Retained Earnings	31	67	78	101	134	186
<b>Attributable to Owners</b>	<b>349</b>	<b>683</b>	<b>695</b>	<b>719</b>	<b>752</b>	<b>803</b>
Non-Controlling Interests	0	3	2	2	2	2
<b>Total Equity</b>	<b>349</b>	<b>687</b>	<b>698</b>	<b>721</b>	<b>754</b>	<b>806</b>
<b>Non-Current Liabilities</b>						
Loans and Borrowings	189	346	615	718	758	751
Employee Benefits	2	8	11	12	14	15
<b>Total Non-Current Liabilities</b>	<b>191</b>	<b>354</b>	<b>626</b>	<b>730</b>	<b>772</b>	<b>765</b>
<b>Current Liabilities</b>						
Trade Payables and Accruals	22	108	86	87	88	89
Loans and Borrowings	30	75	57	92	115	88
Retention Payable	17	25	26	27	14	3
<b>Total Current Liabilities</b>	<b>69</b>	<b>208</b>	<b>169</b>	<b>206</b>	<b>217</b>	<b>179</b>
<b>Equity and Liabilities</b>	<b>609</b>	<b>1,249</b>	<b>1,493</b>	<b>1,658</b>	<b>1,743</b>	<b>1,750</b>

Source: Company data, QNBFS estimates

## Growth Rates

Figures in %	FY2010	FY2011	FY2012e	FY2013e	FY2014e	FY2015e
Revenue	17.70	379.16	19.33	22.80	23.07	22.20
Gross Profit	17.45	247.97	29.18	24.11	17.48	24.96
EBITDA	2.83	164.38	26.20	25.33	16.60	25.18
EBIT	22.29	218.49	30.23	32.55	20.58	35.51
PAT	419.08	21.03	14.00	32.01	21.07	33.70

Source: Company data, QNBFS estimates

## Cash Flow Statement

Figures in QR mn	FY2010	FY2011	FY2012e	FY2013e	FY2014e	FY2015e
<b>Operating Activities</b>						
Profit for the Year	51	62	70	93	112	150
Depreciation	19	33	41	47	52	53
Amortization	0	7	6	6	6	5
Valuation Gains	(36)	(4)	0	0	0	0
Impairment of Receivables	1	1	0	0	0	0
Provision for Service Benefits	0	2	3	1	1	1
Finance Costs	4	6	13	17	21	30
Interest Income	(2)	(1)	0	0	0	0
Working Capital Adjustments	39	(14)	(51)	(15)	(28)	(26)
Finance Costs Paid	(4)	(6)	(13)	(17)	(21)	(30)
Service Benefits Paid	(0)	(1)	0	0	0	0
Social and Sports Fund	(0)	(1)	0	0	0	0
Interest Income Received	2	1	0	0	0	0
<b>Operating Cash Flows</b>	<b>72</b>	<b>84</b>	<b>70</b>	<b>132</b>	<b>144</b>	<b>185</b>
<b>Investing Cash Flows</b>						
Purchase of PPE	(189)	(208)	(220)	(180)	(150)	(60)
Acquisition of Subsidiary	0	(27)	0	0	0	0
Disposal of AFS Investments	27	0	0	0	0	0
<b>Investing Cash Flows</b>	<b>(158)</b>	<b>(235)</b>	<b>(218)</b>	<b>(180)</b>	<b>(150)</b>	<b>(60)</b>
<b>Financing Cash Flows</b>						
Net Movement in Loans	128	155	250	138	63	(35)
Dividends Paid	0	(25)	(59)	(69)	(79)	(99)
<b>Financing Cash Flows</b>	<b>128</b>	<b>134</b>	<b>191</b>	<b>69</b>	<b>(16)</b>	<b>(134)</b>
Change in Cash	41	(16)	43	21	(22)	(10)
Cash at the Beginning	56	97	81	123	144	122
<b>Cash at the End</b>	<b>97</b>	<b>81</b>	<b>123</b>	<b>144</b>	<b>122</b>	<b>113</b>

Source: Company data, QNBFS estimates

## Key Ratios

Key Ratios	FY2010	FY2011	FY2012e	FY2013e	FY2014e	FY2015e
<b>Operating Ratios (%)</b>						
Gross Margin	37.5	27.2	29.5	29.8	28.4	29.1
EBITDA Margin	44.8	24.7	26.1	26.7	25.3	25.9
EBIT Margin	23.0	15.3	16.7	18.0	17.7	19.6
Net Margin	58.3	14.7	14.1	15.1	14.9	16.3
<b>Finance Ratios</b>						
Debt-Equity Ratio	0.6	0.6	1.0	1.1	1.2	1.0
Net Debt-Equity Ratio	0.4	0.5	0.8	0.9	1.0	0.9
Interest Coverage	4.9	10.9	6.6	6.4	6.5	6.0
<b>Return Ratios (%)</b>						
ROCE	3.5	5.8	6.1	7.2	8.2	11.0
ROE	14.6	9.0	10.1	12.9	15.0	18.7
ROA	8.4	4.9	4.7	5.6	6.5	8.6

Source: Company data, QNBFS 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>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

## Contacts

### Ahmed M. Shehada

Head of Trading

Tel: (+974) 4476 6535

[ahmed.shehada@qnbfs.com.qa](mailto:ahmed.shehada@qnbfs.com.qa)

### Keith Whitney

Head of Sales

Tel: (+974) 4476 6533

[keith.whitney@qnbfs.com.qa](mailto:keith.whitney@qnbfs.com.qa)

### Saugata Sarkar

Head of Research

Tel: (+974) 4476 6534

[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

### Sahbi Kasraoui

Manager - HNWI

Tel: (+974) 4476 6544

[sahbi.alkasraoui@qnbfs.com.qa](mailto:sahbi.alkasraoui@qnbfs.com.qa)

### QNB Financial Services SPC

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

**DISCLAIMER:** This publication has been prepared by QNB Financial Services SPC ("QNBFS") a wholly-owned subsidiary of Qatar National Bank ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB 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. 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. While this publication has been prepared with the utmost degree of care by our analysts, 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. 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.

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