

WIDAM FOOD (WDAM)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR6.98	Current Target Price	QR7.80
Implied Upside	11.8%	Old Target Price	QR8.20

Tweaking our Estimates & Target Price; Maintain Accumulate

Widam's 2Q2020 was below our expectations as COVID-19 precautions had a negative impact on the HORECA (hotels, restaurants and cafes) segment during 2Q2020. Consequently, we have slightly lowered Widam's 2020/2021 net earnings by 5.5%/5.2% and its TP by 5% as well. On the positive front, we think disruptions in international flights should support Widam's top- & bottom-lines in 3Q2020 as Qatar's seasonal population contraction during summer months seems to be much less in 2020 vs. 2018 & 2019. Typically, Qatar's population contracts by 10% in July vs. May (10.3% in 2018 and 9.7% in 2019) due to increased outbound tourism activity, coupled with expats visiting their home countries. However, in 2020, July-May population contraction remained at 2.1%, resulting in an 11.1% population growth YoY for Qatar in July. We think higher YoY population should impact Widam's 3Q2020 results positively. In FY2020, the lack of 2019's one-off items (QR20.1mn of one-time losses due to the closure of Al-Rkiya Farm and QR3.4mn of estimated expenses under G&A) should create a positive base for EPS growth in 2020 vs. 2019. The Strategic Food Security Projects disclosed by the Ministry of Municipality and Environment (MME) in March 2019 envisages that local production of red meat could go up from the current 18% to 30% by 2023. Widam, the leading livestock and red meat provider of Qatar and a key contributor to Qatar's National Food Security Program, is likely to be the top beneficiary of increasing local production, which should enjoy higher profitability vs. imports. Widam is also increasing its slaughterhouse capacity from 3,100 heads/day to 5,100 per day. Widam also trades at attractive 2020/2021 P/E multiples of 13.3x/12.6x, notably below the QE Index's 17.3x/14.2x. We maintain our Accumulate rating.

Highlights

- **WDAM posted 2Q2020 net income/EPS of QR23.1mn/QR0.13, down 1.3% YoY/12.8% QoQ and below our net income estimate of QR26.8mn.** Lower-than-expected revenue, coupled with in-line margins, have fed into the major P&L items all the way to the bottom-line, eliminating the positive impact of the lack of discontinued Al-Rkiya farm losses (QR 13.85mn in 2Q2019). Higher-than-expected G&A also crimped Widam's EPS growth YoY.
- **2Q2020 revenue fell by 1.0% YoY while rising 17.4% QoQ due to Ramadan:** While chilled and frozen product sales continue to grow, contractions in other product lines YoY resulted in lower- than-expected revenue primarily due to the closure of HORECA segment. Gross margin (after government compensation), on the other hand, fell to 20.6% in 2Q2020 from 27.1% in 2Q2019 and 22.9% as of 1Q2020. Government compensation declined from QR156.5mn in 2Q2019 to QR149.2mn, which we think is attributable to the increasing weight of non-compensated sales in total revenue, rising to 21% as of 1H2020 from 10% in 2019. Hence, WDAM posted QR35.5mn in gross profits with a 24.8% decline YoY.
- **G&A rose substantially by 84.4% QoQ and 29.8% YoY.** WDAM recorded QR16.8mn in 2Q2020 G&A vs. QR9.1mn in 1Q2020 and QR12.9mn in 2Q2019. It is noteworthy that there was a one-time decline in 1Q2020's G&A as Widam closed the slaughterhouse in Abu-Hamour and opened a new slaughterhouse in Al Wakrah. For the new slaughterhouse in Al Wakrah, Widam received a three-month grace period for the rent, resulting in a lower G&A during 1Q2020.
- **Baladna stake becomes a noteworthy hidden value.** WDAM recorded QR9.4mn of fair value income in 1H2020 under "other comprehensive income", which is attributable to Baladna's share price increase. As investors remember, Widam bought 38.02mn shares in Baladna during the IPO at QR1.01/share (which corresponded to a 2% stake). As of August 31, Baladna's share price reached QR1.961, implying a QR74.7mn value for Widam's stake in the company. While the gains do not pass to the P&L, it has started to create a notable hidden value for Widam.

Catalysts

1) EPS recovery in 2020 and 2) A potential increase in 2020-2021 dividend payout ratio & DPS.

Recommendation, Valuation and Risks

- **We maintain our Accumulate rating and our 12-month target price of QR7.80 implies an 11.8% upside potential.** WDAM's 2020e and 2021e P/E multiples imply 11% and 6% discounts respectively to its international peer group, while its EV/EBITDA multiples are at 37% and 24% premiums. On the other hand, WDAM's 2020-2021e dividend yields of 4.3% is notably above the international peer group average of 1.9% for 2020e and 2.2% for 2021e as well as Qatari stocks' averages of 3.3% and 3.9%, respectively.
- **Risks:** 1) Supply disruptions due to COVID-19 2) Geopolitical risks.

Key Financial Data and Estimates

	2018	2019	2020e	2021e
EPS (QR)	0.60	0.44	0.53	0.55
P/E (x)	11.6	16.0	13.3	12.6
EV/EBITDA (x)	10.1	11.4	11.5	10.3
DPS (QR)	0.45	0.30	0.30	0.30
DY (%)	6.1%	4.3%	4.3%	4.3%

Source: Company data, QNB FS Research; Note: All data based on current number of shares

Key Data

Bloomberg Ticker	WDAM QD
ADR/GDR Ticker	N/A
Reuters Ticker	WDAM.QD
ISIN	QA000AOKD6N7
Sector	Agricultural Prod.
52wk High/52wk Low (QR)	7.199/4.81
3-m Avg. Volume (000)	432.8
Mkt. Cap. (\$ bn/QR bn)	0.3/1.3
EV (\$ bn/QR bn)	0.3/1.2
Current FO*/FO limit (%)	25.5%/49%
Shares Outstanding (mn)	180.0
1-Year Total Return (%)	18.6%
Fiscal Year End	December 31

Source: Bloomberg (as of August 31, 2020), *Qatar Exchange (as of August 31, 2020); Note: FO is foreign ownership

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Detailed Financial Statements

Estimates & Revisions (QR000)

QR000	2018	2019	2020e			2021e		
			Current	Previous	%ch.	Current	Previous	%ch.
Gross Profit	146,614	146,144	140,848	150,456	-6.4%	149,674	155,065	-3.5%
Operating Income	92,003	86,974	84,495	94,104	-10.2%	92,758	98,149	-5.5%
Net Income	108,393	78,391	94,726	100,285	-5.5%	99,471	104,909	-5.2%
EPS	0.60	0.44	0.53	0.56		0.55	0.58	
Growth (YoY)	0.3%	-27.7%	20.8%	27.9%		5.0%	4.6%	

Source: Company data, QNB FS Research

Income Statement (QR mn)

	2017	2018	2019	2020e	2021e	2022e	2023e
Revenue	495,742	515,916	547,638	580,415	605,562	704,692	642,305
COGS	778,219	932,694	880,126	846,435	870,055	952,014	915,241
Depreciation	809	2,334	1,445	1,481	1,518	1,556	1,595
Government Compansation	430,853	565,725	480,077	408,349	415,685	425,578	433,758
Gross Profit	147,567	146,614	146,144	140,848	149,674	176,700	159,228
SG&A	48,904	54,107	53,684	50,593	50,868	52,843	54,005
Depreciation	545	504	5,486	5,760	6,048	6,350	6,668
Operating Income	98,117	92,003	86,974	84,495	92,758	117,507	98,555
EBITDA	99,471	94,841	93,905	91,736	100,324	125,413	106,817
EBITDA Margin %	20.1%	18.4%	17.1%	15.8%	16.6%	17.8%	16.6%
Gain from change in fair value less costs to sell of biological assets	0	768	504	504	0	0	0
Provision Expenses	0	0	0	0	0	0	0
FX gains (losses)	434	-28	336	900	0	0	0
Other Income	9,529	15,651	10,699	8,525	6,713	6,949	7,913
Total Other Income	9,963	16,391	11,539	9,929	6,713	6,949	7,913
Financial Expenses	0	0	0	301	0	0	0
Net profit before discontinued operations	108,080	108,393	98,513	94,726	99,471	124,456	106,468
Discontinued operations	0	0	-20,122	0	0	0	0
Non controlling interests	0	0	0	0	0	0	0
Net Income	108,080	108,393	78,391	94,726	99,471	124,456	106,468
<i>Net Profit Margin</i>	<i>21.8%</i>	<i>21.0%</i>	<i>14.3%</i>	<i>16.3%</i>	<i>16.4%</i>	<i>17.7%</i>	<i>16.6%</i>
<i>Shares Outstanding (mn)</i>	<i>180,000</i>	<i>180,000</i>	<i>180,000</i>	<i>180,000</i>	<i>180,000</i>	<i>180,000</i>	<i>180,000</i>
EPS	0.60	0.60	0.44	0.53	0.55	0.69	0.59
DPS	0.43	0.45	0.30	0.30	0.30	0.42	0.36

Note: EPS based on current number of shares

Balance Sheet (QR mn)

	2017	2018	2019	2020e	2021e	2022e	2023e
Cash & Cash Equivalents	47,704	15,561	31,939	31,939	31,939	31,939	31,939
S/T Deposits	250,000	280,000	160,000	171,688	191,740	213,479	255,721
Accounts Receivable & Prepayments	260,690	280,737	230,275	246,477	260,474	306,975	283,318
Due From Related Parties	0	0	0	0	0	0	0
Biological assets/ Agricultural produce	1,286	18,074	835	0	0	0	0
Inventories	8,955	18,309	16,527	18,213	21,105	25,701	27,216
Total Current Assets	568,636	612,681	439,575	468,317	505,259	578,094	598,194
Right of use assets	0	0	6,712	7,184	7,592	8,948	8,258
Financial assets at fair value through other comprehensive income	6,175	4,000	38,020	38,020	38,020	38,020	38,020
Property, Plant & Equipment	17,552	18,599	21,775	22,863	24,006	25,207	26,467
Non-Current Assets	46,569	40,231	71,234	73,032	74,831	77,647	78,492
Total Assets	615,205	652,912	510,809	541,349	580,089	655,742	676,686
Short-Term Debt	483	483	272	285	299	314	330
Accounts Payable & Accruals	260,364	273,362	142,695	137,232	141,062	154,350	148,388
Other Payables	0	0	0	0	0	0	0
Finance lease liability	0	0	5,581	5,023	4,520	4,068	3,662
Current Liabilities	260,846	273,844	148,547	142,540	145,882	158,733	152,380
Islamic borrowings	754	272	0	0	0	0	0
Long-Term Debt	0	0	1,286	1,157	1,041	937	844
Employees end of service benefits	11,604	13,368	14,509	15,235	15,996	16,796	17,636
Non-Current Liabilities	12,359	13,640	15,795	16,392	17,038	17,733	18,479
Total Liabilities	273,205	287,484	164,342	158,932	162,919	176,466	170,859
Total Shareholder's Equity	342,000	365,428	346,467	382,417	417,170	479,275	505,827
Minority Interest	0	0	0	0	0	0	0
Liabilities & Shareholder's Equity	615,205	652,912	510,809	541,349	580,089	655,742	676,686

Source: Company data, QNB FS Research

Ratio Analysis

Key Metrics

Particulars	2017	2018	2019	2020e	2021e	2022e	2023e
Growth Rates							
Revenue	11.6%	4.1%	6.1%	6.0%	4.3%	16.4%	(8.9%)
Gross Profit	12.4%	(0.6%)	(0.3%)	(3.6%)	6.3%	18.1%	(9.9%)
EBITDA	9.4%	(4.7%)	(1.0%)	(2.3%)	9.4%	25.0%	(14.8%)
EBIT	10.2%	(4.6%)	(6.3%)	(2.8%)	9.7%	26.3%	(15.9%)
PAT/EPS	N/M	0.3%	(27.7%)	20.8%	5.0%	25.1%	(14.5%)
DPS	N/M	5.9%	(33.3%)	0.0%	0.0%	39.1%	(14.5%)
Operating Ratios							
Gross Margin	29.8%	28.4%	26.7%	24.3%	24.7%	25.1%	24.8%
EBITDA Margin	20.1%	18.4%	17.1%	15.8%	16.6%	17.8%	16.6%
EBIT Margin	20.0%	18.3%	16.1%	14.8%	15.6%	16.9%	15.6%
Net Margin	21.8%	21.0%	14.3%	16.3%	16.4%	17.7%	16.6%
Working Capital Ratios							
	76	112	117	120	124	128	133
Inventory Days	4	7	7	8	9	10	11
Average Collection Period	199	212	169	171	174	177	181
Payable Days	122	107	59	59	59	59	59
Finance Ratios							
Debt-Equity Ratio	0%	0%	0%	0%	0%	0%	0%
Net Debt-Equity Ratio	-87%	-81%	-55%	-53%	-53%	-51%	-57%
Net Debt-to-Capital	-664%	-419%	-122%	-112%	-114%	-104%	-131%
Net Debt-to-EBITDA	(3.0)	(3.1)	(2.0)	(2.2)	(2.2)	(1.9)	(2.7)
Interest Coverage	N/M	N/M	N/M	(285.3)	N/M	N/M	N/M
Return Ratios							
ROIC	28.9%	25.8%	25.4%	22.4%	22.5%	24.8%	19.8%
ROE	31.6%	29.7%	22.6%	24.8%	23.8%	26.0%	21.0%
ROA	17.6%	16.6%	15.3%	17.5%	17.1%	19.0%	15.7%
Liquidity Ratios							
Current Ratio	2.2	2.2	3.0	3.3	3.5	3.6	3.9
Quick Ratio	2.1	2.2	2.8	3.2	3.3	3.5	3.7
Valuation							
EV/Sales	1.9	1.9	1.9	1.8	1.7	1.4	1.5
EV/EBITDA	9.6	10.1	11.4	11.5	10.3	8.1	9.1
EV/EBIT	9.7	10.2	12.1	12.3	11.0	8.5	9.7
P/E	11.6	11.6	16.0	13.3	12.6	10.1	11.8
P/BV	3.7	3.4	3.6	3.3	3.0	2.6	2.5
Dividend Yield	5.1%	6.1%	4.3%	4.3%	4.3%	6.0%	5.1%

Source: Company data, QNB FS Research

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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