

WIDAM FOOD (WDAM)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR5.70	Current Target Price	QR8.20
Implied Upside	43.9%		

Freed from One-Offs; Maintain Accumulate, TP

Widam's 1Q2020 results revealed that its financial results were mostly unaffected by Coronavirus-related disruptions and are normalizing following one-off losses & expenses recorded in 2019. 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 estimated expenses under G&A) should create a positive base for EPS growth in 2020 vs. 2019. Consequently, for 2020, we maintain our EPS growth estimate as 27.9% 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 in the coming periods. While the effects of the ongoing COVID-19 pandemic should become clearer near-term, we remain positive about WDAM's ability to withstand the deleterious effects of the lockdown better than most. We maintain our Accumulate rating and our TP at QR8.2. Widam also trades at attractive 2020/2021 P/E multiples of 10.2x/9.8x, notably below the QE Index's 14.3x and 12.5x.

Highlights

- In line with our expectations, WDAM's 1Q2020 results show that the normalization of its financial results, after the extraordinary losses and expenses recorded in 2019, are underway in 2020. Furthermore, the company's financial results were not impacted by Coronavirus-related disruptions during 1Q2020.** Widam Food Company's (WDAM) net profit rose 2.4% YoY (+76.5% QoQ) to QR26.5mn in 1Q2020, in-line with our estimate of QR25.9mn. The sequential rise in net earnings was due to QR6.3mn of losses resulting from discontinued operations (Al-Rkiya Farm) recorded within 4Q2019.
- Revenue rose by 12.8% YoY:** The company posted QR146.9mn in revenue during 1Q2020, increasing by 12.8% YoY. While the sales of government-compensated items remain the same YoY, non-compensated items rose by 270% YoY, driven by WDAM's enhanced product spectrum (frozen and vacuum chilled products). Widam also stated that non-compensated business now accounts for 30% of the total sales vs. 10% in 2019. On the other hand, gross margin (after government compensation) fell to 22.9% in 1Q2020 from 28.3% in 1Q2019 (also down sequentially vs. 4Q2019's 25.5%). Government compensation declined from QR127.3mn as of 1Q2019 to QR97.6mn, which is attributable to lower import costs. As a result, WDAM posted QR33.6mn in gross profit, declining by 8.9% YoY, in parallel to our QR34.3mn forecast.
- G&A fall is not likely to be maintained in the coming quarters.** WDAM recorded G&A of QR9.1mn in 1Q2020, which was notably below 1Q2019's QR13.8mn and our estimate of QR10.3mn. As expressed during the conference call, when Widam shut down a slaughterhouse in Abu Hamour and opened a new one in Al Wakrah, it received a grace period of 3 months for the rent. Therefore, the decline in the G&A is attributable to a temporary decline in rent expenses, which will not be repeated in the coming quarters.
- In order to prevent unforeseen supply disruptions, the company has taken major precautions.** Widam increased its inventory from QR16.5mn as of FY2019 to QR40.9mn in 1Q2020 and the company has arranged daily cargo flights from Australia, Brazil and other suppliers.
- We continue to anticipate Widam's 2020e EPS to increase by 27.9% over 2019,** primarily due to the lack of one-off items mentioned above.

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 1-year target price of QR8.20.** WDAM's 2020e and 2021e P/E multiples imply 29% and 24% discounts, respectively, to its international peers, while its EV/EBITDA multiples are at 4% and 9% discounts. Moreover, WDAM's 2020-2021e dividend yields of 5.3% are notably above its international peer group average of 2.6% for 2020e and 2.5% for 2021e as well as Qatari stocks' averages of 4.3% and 4.6%, respectively.
- Risks:** 1) Supply disruptions due to the Coronavirus 2) Geopolitical risks.

Key Financial Data and Estimates

	2018	2019	2020e	2021e
EPS (QR)	0.60	0.44	0.56	0.58
P/E (x)	9.5	13.1	10.2	9.8
EV/EBITDA (x)	7.7	8.9	8.1	7.5
DPS (QR)	0.45	0.30	0.30	0.30
DY (%)	6.1%	5.3%	5.3%	5.3%

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)	6.99/4.81
3-m Avg. Volume (000)	390.5
Mkt. Cap. (\$ bn/QR bn)	0.3/1.0
EV (\$ bn/QR bn)	0.2/0.7
Current FO*/FO limit (%)	26.3%/49%
Shares Outstanding (mn)	180.0
1-Year Total Return (%)	3.5%
Fiscal Year End	December 31

Source: Bloomberg (as of May 18, 2020), *Qatar Exchange (as of May 18, 2020); Note: FO is foreign ownership

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Ratio Analysis

Key Metrics

Particulars	2017	2018	2019	2020e	2021e
Growth Rates					
Revenue	11.6%	4.1%	6.1%	8.1%	3.2%
Gross Profit	12.4%	(0.6%)	(0.3%)	3.0%	3.1%
EBITDA	9.4%	(4.7%)	(1.0%)	7.9%	4.3%
EBIT	10.2%	(4.6%)	(6.3%)	8.1%	4.3%
PAT/EPS	N/M	0.3%	(27.7%)	27.9%	4.6%
DPS	N/M	5.9%	(33.3%)	0.0%	0.0%
Operating Ratios					
Gross Margin	29.8%	28.4%	26.7%	25.4%	25.4%
EBITDA Margin	20.1%	18.4%	17.1%	17.1%	17.3%
EBIT Margin	20.0%	18.3%	16.1%	16.1%	16.3%
Net Margin	21.8%	21.0%	14.3%	16.9%	17.2%
Working Capital Ratios					
	76	112	117	119	124
Inventory Days	4	7	7	8	9
Average Collection Period	199	212	169	171	174
Payable Days	122	107	59	59	59
Finance Ratios					
Debt-Equity Ratio	0%	0%	0%	0%	0%
Net Debt-Equity Ratio	-87%	-81%	-55%	-52%	-54%
Net Debt-to-Capital	-664%	-419%	-122%	-109%	-117%
Net Debt-to-EBITDA	(3.0)	(3.1)	(2.0)	(2.0)	(2.2)
Interest Coverage	N/M	N/M	N/M	N/M	N/M
Return Ratios					
ROIC	28.9%	25.8%	25.4%	24.5%	23.2%
ROE	31.6%	29.7%	22.6%	25.8%	24.5%
ROA	17.6%	16.6%	15.3%	18.3%	17.8%
Liquidity Ratios					
Current Ratio	2.2	2.2	3.0	3.3	3.5
Quick Ratio	2.1	2.2	2.8	3.2	3.4
Valuation					
EV/Sales	1.5	1.4	1.5	1.4	1.3
EV/EBITDA	7.3	7.7	8.9	8.1	7.5
EV/EBIT	7.4	7.7	9.5	8.6	8.0
P/E	9.5	9.5	13.1	10.2	9.8
P/BV	3.0	2.8	3.0	2.6	2.4
Dividend Yield	5.1%	6.1%	5.3%	5.3%	5.3%

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (QR mn)

	2017	2018	2019	2020e	2021e
Revenue	495,742	515,916	547,638	592,023	610,952
COGS	778,219	932,694	880,126	846,435	870,055
Depreciation	809	2,334	1,445	1,481	1,518
Government Compansation	430,853	565,725	480,077	406,349	415,685
Gross Profit	147,567	146,614	146,144	150,456	155,065
SG&A	48,904	54,107	53,684	50,593	50,868
Depreciation	545	504	5,486	5,760	6,048
Operating Income	98,117	92,003	86,974	94,104	98,149
EBITDA	99,471	94,841	93,905	101,344	105,715
EBITDA Margin %	20.1%	18.4%	17.1%	17.1%	17.3%
Gain from change in fair value less costs to sell of biological assets	0	768	504	504	0
Provision Expenses	0	0	0	0	0
FX gains (losses)	434	-28	336	0	0
Other Income	9,529	15,651	10,699	5,678	6,761
Total Other Income	9,963	16,391	11,539	6,182	6,761
Financial Expenses	0	0	0	0	0
Net profit before discontinued operations	108,080	108,393	98,513	100,285	104,909
Discontinued operations	0	0	-20,122	0	0
Non controlling interests	0	0	0	0	0
Net Income	108,080	108,393	78,391	100,285	104,909
<i>Net Profit Margin</i>	<i>21.8%</i>	<i>21.0%</i>	<i>14.3%</i>	<i>16.9%</i>	<i>17.2%</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>
EPS	0.60	0.60	0.44	0.56	0.58
DPS	0.43	0.45	0.30	0.30	0.30

Note: EPS based on current number of shares

Balance Sheet (QR mn)

	2017	2018	2019	2020e	2021e
Cash & Cash Equivalents	47,704	15,561	31,939	31,939	31,939
S/T Deposits	250,000	280,000	160,000	172,174	200,212
Accounts Receivable & Prepayments	260,690	280,737	230,275	251,407	262,793
Due From Related Parties	0	0	0	0	0
Biological assets/ Agricultural produce	1,286	18,074	835	0	0
Inventories	8,955	18,309	16,527	18,213	21,105
Total Current Assets	568,636	612,681	439,575	473,733	516,049
Right of use assets	0	0	6,712	7,328	7,660
Financial assets at fair value through other comprehensive income	6,175	4,000	38,020	38,020	38,020
Property, Plant & Equipment	17,552	18,599	21,775	22,863	24,006
Non-Current Assets	46,569	40,231	71,234	73,175	74,898
Total Assets	615,205	652,912	510,809	546,908	590,948
Short-Term Debt	483	483	272	285	299
Accounts Payable & Accruals	260,364	273,362	142,695	137,232	141,062
Other Payables	0	0	0	0	0
Finance lease liability	0	0	5,581	5,023	4,520
Current Liabilities	260,846	273,844	148,547	142,540	145,882
Islamic borrowings	754	272	0	0	0
Long-Term Debt	0	0	1,286	1,157	1,041
Employees end of service benefits	11,604	13,368	14,509	15,235	15,996
Non-Current Liabilities	12,359	13,640	15,795	16,392	17,038
Total Liabilities	273,205	287,484	164,342	158,932	162,919
Total Shareholder's Equity	342,000	365,428	346,467	387,976	428,028
Minority Interest	0	0	0	0	0
Liabilities & Shareholder's Equity	615,205	652,912	510,809	546,908	590,948

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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