

WDAMAlert – Slightly Better Than Expected 3Q With Higher Revenue; Maintain TP/Accumulate

- **WDAM posted 3Q2020 net income/EPS of QR14.3mn/QR0.08, up 1.1% YoY but down 38.0% QoQ and above our net income estimate of QR12.6mn (variation of +13.1%).** In 9M2020, WDAM recorded net profit of QR63.9mn as compared to QR63.4mn in 9M2019. EPS remained flat YoY at QR0.35 in 9M2020.
- **3Q2020 gross profits rose by 4.4% YoY but fell by 11.2% QoQ due to diminishing Ramadan effect of 2Q2020:** WDAM recorded QR31.5mn in gross profits in 3Q2020, which was 13.4% above our expectation. Revenue was up 38.4% YoY (down 5.4% QoQ), which is supported by the gradual lifting coronavirus counter-measures in 3Q2020, impacting positively on the HORECA segment (hotels, restaurants, cafés). Furthermore, we are of the view that disruptions in international flights supported Widam's top-line in 3Q2020 as Qatar's seasonal population contraction during summer months seems to be less in 2020 vs. 2018 & 2019. This resulted in a 0.8% average population growth YoY in 3Q2020. 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 and 2.6% YoY in August. As a result, Qatar's 3Q2020 population was 0.8% above its 3Q2019's average. On the other hand, gross margin (after government compensation), on the other hand, fell to 19.3% in 3Q2020 from 20.6% in 2Q2020 and 25.7% in 3Q2019. Meanwhile, Widam's government compensation was up 13.0% YoY but down 22.8% QoQ.
- **On the positive front, WDAM recorded QR45.6mn of fair value income in 9M2020 under "other comprehensive income", which is attributable Baladna's share price increase.** As investors remember, Widam bought 38.02mn shares in Baladna (which corresponded to a 2% stake) during the IPO at QR1.01/share. These shares have risen to QR2.078 as of yesterday (October 21, 2020). While these gains do not flow into the P&L, it still remains in Widam's balance sheet as a notable hidden value.
- **We maintain our estimates and TP.** As of 9M2020, WDAM recorded QR63.9mn of earnings, which is on-track with our already conservative FY2020 estimate of QR94.1mn. Therefore, we maintain our 2020 estimates and target price for the name. 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. Just the lack of one-off items in 2020 should drive 2020 EPS growth by 26% so our thesis of earnings acceleration remains intact. 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 by 2020. **We maintain our Accumulate rating and our TP at QR8.2.**

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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