

WIDAM FOOD (WDAM)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR6.40	Current Target Price	QR8.20
Implied Upside	28.1%		

3Q2019 Results On Track, Maintain Accumulate

Widam's 3Q2019 results show that the company is on track with our FY2019 estimates. We continue to anticipate Widam's 2019e EPS to decline by 14.2% over 2018. In 2020, given the lack of the one-off items depressing EPS growth in 2019, we expect WDAM's EPS to rise by 18.0% YoY. 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. Moreover, the company offers attractive dividend yields of 7.0% for 2019 and 2020. Despite these positives, headline EPS will decline this year providing investors an avenue to accumulate these shares ahead of dividend distribution and earnings recovery in 2020. Widam shares fell by 8.5% YTD, underperforming QE Index's 0%. On the other hand, since our initiation of coverage on October 13, shares rose by 1.7% vs. DSM Index's 0.2%.

Highlights

- **WDAM posted 3Q2019 net income/EPS of QR14.2mn/QR0.08, down 25.7% YoY and 39.5% QoQ.** In 9M2019, WDAM reported net profit of QR63.39mn vs. QR79.65mn in 9M2018, declining 20.4% YoY, which was primarily due to the discontinued Al Rkiya operation. During 2Q2019, Widam discontinued its Al Rkiya farm, disposing off all its biological assets at a net loss of QR13.8mn. EPS amounted to QR0.35 in 9M2019 vs. QR0.44 in 9M2018.
- **Gross profits rose by 6.3% YoY in 3Q2019 aided by improved cost of sales.** While Widam's revenue remained barely flat YoY with a 0.5% decline YoY, a 13.1% contraction in its cost of sales drove the gross profit growth, despite a 20.5% YoY contraction in government compensation. Sequentially, both revenue and gross profit was down (32.5% and 36.1%, respectively) as live sheep imports from Australia ceased due to the hot weather during the summer months.
- **G&A rose by 50.8% YoY and 45.7% QoQ, as expected, reaching QR45.9mn.** While breakdown of G&A is only available in year-end results, we believe the rise in 3Q2019 G&A should be attributable to non-recurring items. Other income (QR3.1mn as of 3Q2019) was lower 9.1% YoY given the lack of 2018's one-off items coupled with lower income on bank deposits (down 8.7% YoY).
- **We continue to anticipate Widam's 2019e EPS to decline by 14.2% over 2018. In 2020, given the lack of these one-off items, we expect WDAM's EPS to rise by 18.0% YoY.**
- **Widam plans to increase its slaughterhouse capacity significantly from 3,100 heads/day to 5,100 in 2020** (assuming some rationalization of its existing capacity). The company plans to open one of the largest slaughterhouses in the Middle East at Al Wakrah/Doha during 2020 with a slaughtering capacity of 3,500 heads/day.
- **Widam offers a superior dividend yield, compared to both its international peers and other Qatari stocks.** In-line with 2018, we expect Widam to distribute QR0.45/share in dividends for both 2019 & 2020, which equates to a dividend yield of 7.0%.

Catalysts

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

Recommendation, Valuation and Risks

- **We rate Widam as Accumulate and our 12-month target price of QR8.20 implies a 28.1% upside potential.** WDAM's 2019e and 2020e P/E multiples imply 32% and 25% discounts respectively to its international peer group, while its EV/EBITDA multiples are at 12% and 7% discounts. On the other hand, WDAM's 2019-2020e dividend yields of 7.0% is notably above the international peer group average of 2.0% for 2019e and 2.7% for 2020e as well as Qatari stocks' averages of 4.2% and 4.3% respectively.
- **Risks:** 1) Supply issues hurting imports and 2) Geopolitical risks.

Key Financial Data and Estimates

	2017	2018	2019e	2020e
EPS (QR)	0.60	0.60	0.52	0.61
P/E (x)	10.7	10.6	12.4	10.5
EV/EBITDA (x)	8.3	8.9	8.6	8.1
DPS (QR)	0.43	0.45	0.45	0.45
DY (%)	5.1%	6.1%	7.0%	7.0%

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)	7.80/5.62
3-m Avg. Volume (000)	205.6
Mkt. Cap. (\$ bn/QR bn)	0.3/1.2
EV (\$ bn/QR bn)	0.2/0.8
Current FO*/FO limit (%)	24.8%/49%
Shares Outstanding (mn)	180.0
1-Year Total Return (%)	-0.46%
Fiscal Year End	December 31

Source: Bloomberg (as of Oct 27, 2019), *Qatar Exchange (as of Oct 27, 2019); Note: FO is foreign ownership

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Ratio Analysis

Key Metrics

Particulars	2017	2018	2019e	2020e	2021e
Growth Rates					
Revenue	11.6%	4.1%	7.7%	2.6%	3.2%
Gross Profit	12.4%	(0.6%)	5.0%	2.1%	2.5%
EBITDA	7.6%	(6.6%)	4.8%	5.6%	3.3%
EBIT	8.3%	(6.6%)	4.9%	5.6%	3.3%
PAT/EPS	N/M	0.3%	(14.2%)	18.0%	3.4%
DPS	N/M	5.9%	0.0%	0.0%	0.0%
CFPS	N/M	(18.2%)	(2.7%)	38.0%	3.3%
Operating Ratios					
Gross Margin	29.8%	28.4%	27.7%	27.6%	27.4%
Gross Margin, Excluding Depreciation & Amortization	29.8%	28.4%	27.7%	27.6%	27.4%
EBITDA Margin	20.7%	18.6%	18.1%	18.6%	18.6%
EBIT Margin	20.6%	18.5%	18.0%	18.5%	18.5%
Net Margin	21.8%	21.0%	16.7%	19.2%	19.3%
Working Capital Ratios					
Inventory Days	76	112	120	126	131
Average Collection Period	4	7	8	9	10
Payable Days	199	212	218	224	227
Finance Ratios					
Debt-Equity Ratio	0%	0%	1%	1%	1%
Net Debt-Equity Ratio	-87%	-81%	-77%	-76%	-74%
Net Debt-to-Capital	-664%	-419%	-331%	-310%	-291%
Net Debt-to-EBITDA	(2.9)	(3.1)	(2.8)	(2.8)	(2.8)
Interest Coverage	N/M	N/M	N/M	N/M	N/M
Return Ratios					
ROIC	29.8%	26.1%	27.0%	26.8%	26.2%
ROE	31.6%	29.7%	25.3%	28.1%	27.4%
ROA	17.6%	16.6%	14.0%	15.7%	15.6%
FCF Yield	7.9%	6.4%	6.1%	8.6%	8.9%
Liquidity Ratios					
Current Ratio	2.2	2.2	2.2	2.2	2.3
Quick Ratio	2.1	2.2	2.1	2.1	2.2
Valuation					
EV/Sales	1.7	1.7	1.6	1.5	1.4
EV/EBITDA	8.3	8.9	8.6	8.1	7.7
EV/EBIT	8.4	9.0	8.7	8.1	7.7
P/E	10.7	10.6	12.4	10.5	10.2
P/CF	12.1	14.8	15.2	11.0	10.7
P/BV	3.4	3.2	3.1	2.9	2.8
Dividend Yield	5.1%	6.1%	7.0%	7.0%	7.0%
FCF Yield	7.9%	6.4%	6.1%	8.6%	8.9%

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (QR mn)

	2017	2018	2019e	2020e	2021e
Revenue	495,742	515,916	555,602	570,285	588,587
COGS	774,916	931,564	935,041	966,148	997,028
Depreciation	4,112	3,464	4,626	4,742	4,860
Government Compensation	430,853	565,725	538,074	557,805	574,422
Gross Profit	147,567	146,614	154,010	157,200	161,121
SG&A	48,904	54,107	58,019	55,694	56,251
Depreciation	545	504	504	529	556
Operating Income	98,117	92,002	95,486	100,977	104,314
EBITDA	102,775	95,970	100,617	106,248	109,730
EBITDA Margin %	20.7%	18.6%	18.1%	18.6%	18.6%
Gain from change in fair value less costs to sell of biological assets	0	768	0	0	0
Provision Expenses	0	0	0	0	0
FX gains (losses)	434	-28	622	0	0
Other Income	9,529	15,651	10,691	8,670	9,033
Total Other Income	9,963	16,391	11,313	8,670	9,033
Financial Expenses	0	0	0	0	0
Net profit before discontinued operations	108,080	108,393	106,800	109,647	113,347
Discontinued operations	0	0	-13,846	0	0
Non controlling interests	0	0	0	0	0
Net Income	108,080	108,393	92,954	109,647	113,347
<i>Net Profit Margin</i>	<i>21.8%</i>	<i>21.0%</i>	<i>16.7%</i>	<i>19.2%</i>	<i>19.3%</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	0.52	0.61	0.63
DPS	0.43	0.45	0.45	0.45	0.45

Note: EPS based on current number of shares

Balance Sheet (QR mn)

	2017	2018	2019e	2020e	2021e
Cash & Cash Equivalents	47,704	15,561	17,117	17,117	17,117
S/T Deposits	250,000	280,000	268,362	281,688	293,783
Accounts Receivable & Prepayments	260,690	280,737	302,333	315,610	328,964
Due From Related Parties	0	0	0	0	0
Biological assets/ Agricultural produce	1,286	18,074	0	0	0
Inventories	8,955	18,309	19,213	22,499	25,950
Total Current Assets	568,636	612,681	607,026	636,914	665,814
Right of use assets	0	0	10,661	11,129	11,600
Financial assets at fair value through other comprehensive income	6,175	4,000	4,000	4,000	4,000
Property, Plant & Equipment	17,552	18,599	24,248	25,461	26,734
Non-Current Assets	46,569	40,231	57,424	60,030	62,746
Total Assets	615,205	652,912	664,449	696,944	728,560
Short-Term Debt	483	483	507	532	559
Accounts Payable & Accruals	260,364	273,362	271,427	280,457	289,421
Other Payables	0	0	0	0	0
Finance lease liability	0	0	6,722	6,050	5,445
Current Liabilities	260,846	273,844	278,655	287,038	295,424
Islamic borrowings	754	272	270	279	288
Long-Term Debt	0	0	3,296	2,966	2,670
Employees end of service benefits	11,604	13,368	15,372	16,140	16,947
Non-Current Liabilities	12,359	13,640	18,937	19,385	19,905
Total Liabilities	273,205	287,484	297,593	306,424	315,328
Total Shareholder's Equity	342,000	365,428	366,856	390,520	413,232
Minority Interest	0	0	0	0	0
Liabilities & Shareholder's Equity	615,205	652,912	664,449	696,944	728,560

Source: Company data, QNB FS Research

Cash Flow Statement (QR mn)

	2017	2018	2019e	2020e	2021e
Cash Flow From Operations	94,959	77,667	75,596	104,354	107,805
Cash Flow From Investment Activities	-8,698	3,039	486	-5,250	-5,513
Cash Flow From Financing Activities	-63,483	-76,983	-83,314	-83,314	-87,894
Cash Flow From Other Activities	-1,868	-5,866	-2,850	-2,456	-2,285
Change In Cash	20,910	-2,143	-10,082	13,335	12,113
Cash Beginning of Period	276,794	297,704	295,562	285,480	298,814
Cash End of Period	297,704	295,562	285,480	298,814	310,927

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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