WDAM Alert – Worse-Than-Expected 2Q with Lower Revenue; Maintain TP, Accumulate

- **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:** WDAM recorded QR172.3mn revenue in 2Q2020, which was 12.3% below our expectation. We had anticipated WDAM to maintain its 1Q2020 revenue growth momentum (which was up 12.8% YoY). While chilled and frozen product sales continue to grow, contractions in other product lines YoY resulted in lower-than-expected revenue for Widam. 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. Nevertheless, gross margin was in-line with our 20.2% forecast. Government compensation declined from QR156.5mn as of 2Q2019 to QR149.2mn, which we think is attributable to the increasing weight of non-subsidized sales in total revenue, rising to 30% as of 2Q2020 from 10% in 1Q2020. Hence, WDAM posted QR35.5mn in gross profits with a 24.8% decline YoY (variation: -10.6%).

- **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-months grace period for the rent, resulting in a lower G&A during 1Q2020. Still, Widam's G&A rose 29.8% YoY in 2Q2020 and 28.0% above our estimate.

- **On the positive front, WDAM recorded QR9.4mn of fair value income in 1H2020 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. As of 1Q2020, Baladna's share price was QR0.949, which rose to QR1.248 by the end-June and further to QR1.6 as of July 23. While the gains do not pass from the P&L, we expect strong mark-to-market gains to continue in the third quarter as well.

- **We maintain our estimates and TP.** As of 1H2020, WDAM recorded QR49.6mn of earnings, which is on-track with our already conservative FY2020 estimate of QR101.2mn. 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.**

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Recommendations		Risk Ratings	
Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price		*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
OUTPERFORM	Greater than +20%	**R-1**	Significantly lower than average
ACCUMULATE	Between +10% to +20%	**R-2**	Lower than average
MARKET PERFORM	Between -10% to +10%	**R-3**	Medium / In-line with the average
REDUCE	Between -10% to -20%	**R-4**	Above average
UNDERPERFORM	Lower than -20%	**R-5**	Significantly above average

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