

# WDAM Alert–Government Subsidies Not to be Renewed; Downgrade to Market Perform

- **Agreement with the Government of Qatar for subsidizing will not be renewed:** Widam Food Company (WDAM) announced that the agreement between the Government of Qatar and WDAM for subsidizing Australian fresh and chilled meat, which commenced on December 29, 2015 and is ending on December 31, 2020, will not be renewed.
- **Australian meat is a major part of Widam’s subsidized imports - but not all - and we think the company can shift a part of its subsidized imports to other countries. However, the ultimate potential impact on Widam’s bottom line depends on the Qatari meat market’s price-volume elasticity.** As of 9M2020, government subsidies of QR361.9mn accounted for 75.0% of WDAM’s revenue and 5.7x of its 9M2020 net income; c.82% of revenue originate from sales of subsidized meat. We do not anticipate WDAM will lose all the subsidized Australian meat revenue as it realizes c.95% of Qatar’s sheep meat imports from Australia. Therefore, its direct competitors in the local market for imported Australian sheep meat is negligible. On the other hand, elimination of subsidies will result in an increase in Widam’s Australian fresh and chilled meat sales prices, which could consequently lead to lower sales volumes. We think even when the subsidies are lifted, Australian sheep meat will likely to be one of the cheapest sheep meat in the market; therefore, price elasticity of demand will determine the net outcome for WDAM. Besides, we think, Widam can increase its purchases from other subsidized countries like Sudan to an extent. However, we think it will take time to shift imports to other countries and as Australia is the leading sheep meat producer in the world, it may not be possible to fully switch imports from Australia. Finally, on the positive side, we think a rise in frozen meat sales could support WDAM’s top- & bottom-lines as well.
- **We downgrade Widam to Market Perform and revise our TP to QR6.18 from QR8.20 due to this increased uncertainty.** We maintain our FY2020 net income estimate but our forward estimates are under review. For an initial analysis, we pencil in an overall 15% impact on WDAM’s bottom-line due to the potential impact of lifting of government subsidies on Australian sheep meat imports. We have also increased our cost of Equity by 2 percentage points to 12.8% due to increased uncertainty. As a result, our target price drops to QR6.18. On the positive front, 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.

### 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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