

# WDAM Alert – Miss Driven by One-Offs But DPS Cut; Maintain Accumulate

- **WDAM posted 4Q2019 net income/EPS of QR15.0m/QR0.036, down 47.8% YoY (up 6%, QoQ), missing our net income estimate of QR28.6mn primarily due to one-offs.** In FY2019, WDAM reported net profit of QR78.4mn vs. QR108.39mn in FY2018. EPS amounted to QR0.44 in FY2019 as compared to QR0.60 in FY2018 with a 27.7% decline YoY.
- **DPS cut by 30% and below our estimate:** The board has decided to recommend QR0.30 per share in dividends, which was below 2018's QR0.45 as well as our estimate at the same level. Payout was 68% vs. 75% in 2018. Given lack of substantial capex and a decent cash position, we were surprised by the dividend cut and will seek more clarity from management on this issue.
- **Revenue was in-line with our estimate:** The company recorded QR125.7mn revenue in 4Q2019 with a 9.0% decline YoY, in line with our QR128.6mn forecast (variation: -2.3%). Gross margin, on the other hand, fell to 26.2% in 4Q2019 from 31.3% in 4Q2018 (however, up sequentially vs. 3Q2019's 25.6%). Hence, WDAM posted QR32.4mn in gross profits (variation: -13.2%) with a 11.1% decline YoY.
- **G&A is also a tad higher than our estimate.** WDAM recorded QR13.3mn in 4Q2019 G&A, somewhat in-line with our QR12.2mn estimate (variation: 9.5%). Staff costs in FY2019 rose by 8.9% reaching QR36.7mn, accounting for 62% of G&A.
- **Losses from discontinued operations and other income depressed 4Q2019's bottom-line, contributing to the majority of the earnings miss.** The company recorded QR6.3mn of "Other Impairments" under losses from discontinued operations within 4Q2019 vs. none in 3Q2019. After the company recorded QR13.8mn as of 1H2019 for the discontinued Al Rkiya farm losses, followed by none in 3Q2019, we were not expecting the company to record additional losses for discontinued operations in 4Q2019.
- **We will be revising our estimates and TP; regardless of the lower-than-expected results in 2019, our investment case for WDAM remains broadly intact.** 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. Since our initiation of coverage on October 13, shares remained barely flat falling 0.3% vs. DSM Index's 7.2% fall.

### 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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