

# WDAM Alert – Provisions Impact 4Q & 2020 Bottom-Line; Maintain TP & MP

- **WDAM reports net profit, adjusted for impairments & provision, of QR11.1mn in 4Q2020, below our estimates.** Widam Food Company (WDAM) reported net profit, excluding provisions & impairments, of QR11.1mn in 4Q2020 as compared to QR15.0mn in 4Q2019 (3Q2020: QR14.3mn), below our estimate of QR18.1mn. On the other hand, due to the QR24.9mn of impairments and provisions allocated in 4Q2020, WDAM posted a net loss of QR13.8mn in 4Q2020 vs. net profit of QR15.0mn in 4Q2019 (3Q2020: net profit of QR14.3mn). The company reported adjusted net profit (excluding provisions & impairments) of QR75.0mn and net profit (including provisions & impairments) of QR50.1mn in FY2020 as compared to a net profit of QR78.4mn in FY2019. EPS amounted to QR0.28 in FY2020 as compared to QR0.44 in FY2019. The Board of Directors has proposed distribution of a cash dividend of 10% of the nominal share value i.e., QR0.10 per share, which was also below our QR0.15/share estimate.
- **Revenue was up 54.8% YoY/19.1% QoQ with the HORECA segment (hotels, restaurants, cafés) supported by the gradual lifting of coronavirus counter-measures in 4Q2020, coupled with a likely demand boost before government subsidies ended in December.** We remind investors that WDAM announced in November that its agreement with the Government of Qatar subsidizing Australian fresh and chilled meat (which commenced on December 29, 2015 and ended on December 31, 2020) would not be renewed, which would result in higher product prices for WDAM. 4Q2020 gross margin (after government compensation) was 12.5% in 4Q2020 vs. 19.3% in 3Q2020 and also below 4Q2019's 25.5%, which was attributable to the changing product mix given increasing weight of frozen & chilled products. **As a result, 4Q2020 gross profits (after government compensation) declined by 23.9% YoY/22.7% QoQ.**
- **In 4Q2020, WDAM allocated QR24.9mn of provisions, QR13mn of which is for government compensation, QR4.8mn is for a project, QR2.3mn for staff receivables, QR2.7mn for other receivables, QR1.9mn for expected credit losses and QR0.15mn for projects under progress.** None of these items (except for provisions for projects under progress) existed in 3Q2020 or 4Q2019 results.
- **On the positive front, WDAM recorded QR30.0mn of fair value income in FY2020 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 QR1.79 as of December 31, 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 for now until we see some clarification on the provisions during the conference call.** 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 will be observed starting from 1Q2021 and it will depend on the Qatari meat market’s price-volume elasticity. 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. **We maintain our Market Perform 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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