

WDAM Alert – Lifting of Government Subsidies Weighs on 1Q2021 Results; Remain MP

- **WDAM reports net profit of QR1.02mn in 1Q2021, below our estimate:** Widam Food Company (WDAM) reported net profit of QR1.02mn in 1Q2021 vs. 1Q2020's QR26.5mn and below our estimate of QR13.3mn, which already represented a 49.6% decline YoY. EPS amounted to QR0.01 in 1Q2021 as compared to QR0.15 in 1Q2020.
- **Revenue was down 31.6% YoY/48.3% QoQ to QR100.4mn.** 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. Lifting of government subsidies in 1Q2021 resulted in higher sales prices for Widam's previously-subsidized products; however, volume contraction was possibly more than we originally estimated to justify this top-line decline. We also think a stronger-than-expected 4Q2020 (when revenue was up 54.6% YoY/19.1% QoQ) could be attributable to some inventory build-up by customers before the end of government subsidies by YE2020; this could have had a detrimental impact on 1Q2021 sales, in our view. Widam recorded a gross loss of QR6.6mn in 1Q2021 after government compensation (which declined to QR4.3mn in 1Q2021 from QR97.6mn in 1Q2020 and QR92.6mn in 4Q2020) vs. gross profits of QR33.6mn in 1Q2020 and QR24.4mn in 4Q2020.
- **G&A rose to QR14.7mn in 1Q2021 from 1Q2020's QR9.1mn but was below 4Q2020's QR16.1mn.** It is noteworthy that Widam's 1Q2020 G&A base was extraordinarily low as the company received a temporarily rent waiver during the period. After 1Q2020, Widam's G&A became normalized with the termination of these rent waivers.
- **On the positive front, WDAM recorded QR22.3mn of other income vs. QR60.4k in 1Q2020, which supported its bottom-line.**
- **We maintain our estimates and TP for now until we see some clarification on the post-Government-subsidy meat-market dynamics 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 depend on the Qatari meat market's price-volume elasticity. The possible "brought-forward" sales in 4Q2020 ahead of the price increases in 1Q2021 (due to the lifting of subsidies) could have been one of the factors depressing Widam's revenue in 1Q2021. However, we anticipate this negative effect to cease in the coming quarters as customer inventories deplete. 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 a top beneficiary of increasing local production, which should enjoy higher profitability vs. imports. **We maintain our Market Perform rating and our TP at QR6.18 for now until we see some clarification on the 1Q2021 results conference call.**

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

Saugata Sarkar, CFA, CAIA
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
shahan.keushgerian@qnbfs.com.qa

Mehmet Aksoy, PhD
Senior Research Analyst
+974 4476 6589
mehmet.aksoy@qnbfs.com.qa

DISCLAIMER: This publication has been prepared by QNB Financial Services Co. WLL ("QNBFS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNBFS.