

## WIDAM FOOD (WDAM)

| Recommendation | ACCUMULATE | Risk Rating          | R-4    |
|----------------|------------|----------------------|--------|
| Share Price    | QR6.29     | Current Target Price | QR8.20 |
| Implied Upside | 30.1%      |                      |        |

### One-offs Overshadow Operational Growth; Initiating Coverage with Accumulate

**We initiate coverage on Widam Food Co. with an Accumulate rating.** 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 while the government supports its new Mubadara program, which incentivizes local producers to breed & sell more livestock to Widam. We favor the Widam story given its 4.9% EBIT growth in 2019 followed by a 5.6% increase in 2020; EPS should also grow 18.0% in 2020. Moreover, the company sports attractive dividend yields of 7.2% for 2019 and 2020. **Despite these positives, headline EPS will decline this year based on non-operating items providing investors an avenue to accumulate these shares ahead of dividend distribution and earnings recovery in 2020.**

### Highlights

- Established in 2003, Widam is Qatar's largest meat and livestock trading company by market share. The company imports and trades livestock, meat and feeds, in addition to slaughtering sheep and cattle and supplying the local market with meat and related products. Widam is the exclusive importer of subsidized Australian sheep & sheep meat, which makes up around 61% of the local sheep meat market.
- WDAM shares have underperformed Qatari equities YTD as headline earnings have come under pressure from the termination of Al Rkiya operation. WDAM shares have fallen by 10.1% YTD while the QE Index has displayed flat performance at -0.1%. During 2Q2019, Widam discontinued its Al Rkiya farm, disposing off all its biological assets at a net loss of QR13.8mn. Hence, Widam's net earnings fell by 18.8% YoY in 1H2019 to QR49.2mn. However, during the same time frame, the company's net profits from continuing operations increased by 3.9% YoY. Moreover, we expect YoY EPS recovery to be limited in 2H2019 due to lower other income as a result of 2018's high base; hence, we expect Widam's 2019e EPS to decline by 14.2% over 2018. **In 2020, given the lack of these one-off items, we expect WDAM's EPS to rise by 18.0% YoY.**
- Widam plans to increase its slaughterhouse capacity significantly from 3,100 heads/day to 5,100 in 2020 (assuming some rationalization of its existing capacity). The company plans to open one of the largest slaughterhouses in the Middle East at Al Wakrah/Doha during 2020 with a slaughtering capacity of 3,500 heads/day.
- Widam offers a superior dividend yield, compared to both its international peers and other Qatari stocks. In-line with 2018, we expect Widam to distribute QR0.45/share in dividends for both 2019 & 2020, which equates to a dividend yield of 7.2%. It is noteworthy that Widam's 2019/2020e dividend yields are both above its international peers' (1.9% and 2.7%, respectively) as well as the QE Index's averages of 4.2% and 4.3%. Although DY is attractive, we note the company has headroom to expand dividends further considering its legal reserves will exceed its required 50% minimum level of share capital by 2020.

### Catalysts

1) EPS recovery in 2020 and 2) A potential increase in 2020-2021 dividend payout ratios & DPS.

### Recommendation, Valuation and Risks

- We rate Widam as Accumulate and our 12-month target price of QR8.20 implies a 30.1% upside potential.** WDAM's 2019e and 2020e P/E multiples imply 9% and 23% discounts, respectively, to the international peer group whereas its EV/EBITDA multiples are at 14% and 8% discounts. On the other hand, WDAM's 2019-2020e dividend yields of 7.2% are notably above the international peer group average of 1.9% for 2019e and 2.7% for 2020e as well as Qatari stocks' averages of 4.2% and 4.3% respectively.
- Risks:** 1) Supply issues hurting imports and 2) Geopolitical risks.

### Key Financial Data and Estimates

|               | 2017 | 2018 | 2019e | 2020e |
|---------------|------|------|-------|-------|
| EPS (QR)      | 0.60 | 0.60 | 0.52  | 0.61  |
| P/E (x)       | 10.5 | 10.5 | 12.2  | 10.3  |
| EV/EBITDA (x) | 8.1  | 8.7  | 8.5   | 7.9   |
| DPS (QR)      | 0.43 | 0.45 | 0.45  | 0.45  |
| DY (%)        | 6.3% | 6.1% | 7.2%  | 7.2%  |

Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

|                          |                    |
|--------------------------|--------------------|
| Bloomberg Ticker         | WDAM QD            |
| ADR/GDR Ticker           | N/A                |
| Reuters Ticker           | WDAM.QD            |
| ISIN                     | QA000AOKD6N7       |
| Sector                   | Agricultural Prod. |
| 52wk High/52wk Low (QR)  | 7.80 / 5.62        |
| 3-m Avg. Volume (000)    | 239.0              |
| Mkt. Cap. (\$ bn/QR bn)  | 0.3/1.1            |
| EV (\$ bn/QR bn)         | 0.2/0.8            |
| Current FO*/FO limit (%) | 24.8%/49%          |
| Shares Outstanding (mn)  | 180.0              |
| 1-Year Total Return (%)  | -11.5%             |
| Fiscal Year End          | December 31        |

Source: Bloomberg (as of Oct 13, 2019), \*Qatar Exchange (as of as of Oct 13, 2019); Note: FO is foreign ownership

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## Valuation

We value WDAM shares at QR8.20 with a 30.1% upside potential using a combination of DCF, international and domestic multiples. We assign the biggest weights to DCF (cash flows to firm) and international comparison methodologies, as the former captures the long-term potential of companies and the latter provides a better comparable universe relative to local peers. On top of its lucrative DCF upside, WDAM currently trades at discounts to its international peers. On the other hand, the company also trades at notable discounts to Qatar Stock Exchange averages in terms of its 2019e P/E and dividend yield.

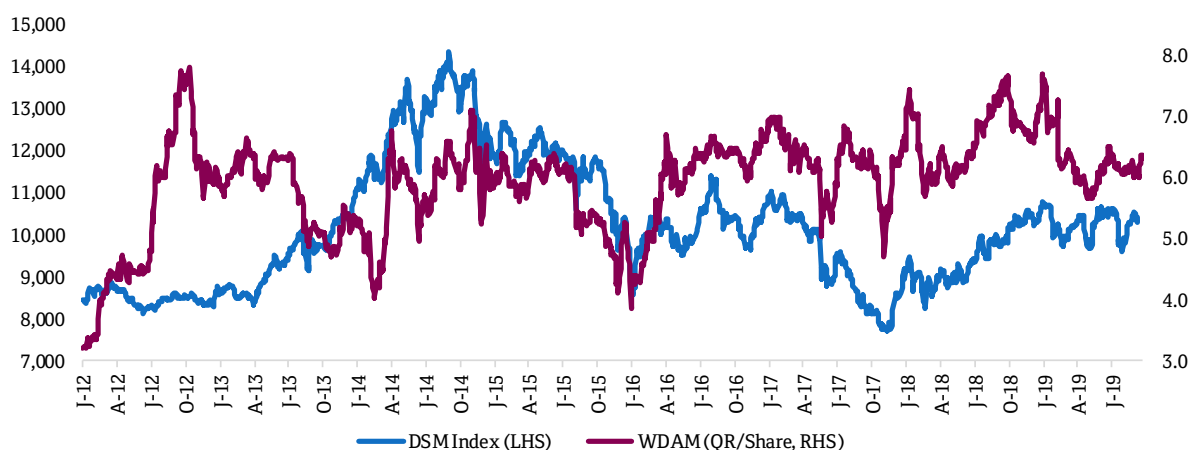
### Valuation Summary

| Method                                                   | Weight in Overall Valuation | WDAM <sup>*</sup> Upside/Downside Potential |
|----------------------------------------------------------|-----------------------------|---------------------------------------------|
| DCF                                                      | 40%                         | 34.2%                                       |
| International Comparison                                 | 40%                         |                                             |
| P/E, 2019e                                               | 10%                         | 9.5%                                        |
| EV/EBITDA, 2019e                                         | 10%                         | 15.8%                                       |
| P/E, 2020e                                               | 10%                         | 30.5%                                       |
| EV/EBITDA, 2020e                                         | 10%                         | 9.0%                                        |
| Local Comparison                                         | 20%                         |                                             |
| DSM All Share Index Dividend Yield 2019e @ 4.2%          | 10%                         | 69.1%                                       |
| DSM All Share Index P/E, 2019e @13.4x                    | 10%                         | 29.7%                                       |
| <b>Weighted Average Upside Potential for WDAM Shares</b> | <b>100%</b>                 | <b>30.1%</b>                                |

Source: Bloomberg consensus figures for international peers, QNB FS Research

WDAM shares have underperformed the QE Index YTD, which is attributable to lower net earnings in 2019 given the termination of its Al Rkiya operation. Since the beginning of the year, WDAM shares have fallen by 10.1%, whereas the QE Index has been flattish at -0.1%. During 1H2019, Widam discontinued the Al Rkiya Farm, disposing off all its biological assets at a net loss of QR13.8mn. As a result, Widam's net earnings fell by 18.8% (1H2019) YoY to QR49.2mn. However, during the same period, the company's net earnings from continued operations recorded a 3.9% rise to QR63.1mn.

### WDAM Share Price Graph



Source: Bloomberg, QNB FS Research

**Widam trades at lower 2019e/2020e P/Es vs. its international peers, which is not justified given the company's superior ROEs.** WDAM trades at 2019e and 2020e P/E multiples of 12.2x and 10.3x, implying 9% and 23% discounts to its international peers, respectively, which we believe is not justified given Widam's superior ROEs (25.3% and 28.1%, respectively for 2019e and 2020e, vs. international peers' average of 14.5% and 15.1%). While establishing the international peer group, we focused on the companies that have red meat operations and tried to exclude white meat companies.

## Valuation Multiples: International Peers vs. WDAM

| Company                      | Country      | Beta<br>5yr adj. | P/E         |             | EV/EBITDA  |            | EBITDA Margin |              | Dividend Yield |             | ROE%         |              |
|------------------------------|--------------|------------------|-------------|-------------|------------|------------|---------------|--------------|----------------|-------------|--------------|--------------|
|                              |              |                  | 2019e       | 2020e       | 2019e      | 2020e      | 2019e         | 2020e        | 2019e          | 2020e       | 2019e        | 2020e        |
| A'SAFFA FOODS SAOG           | Oman         | 0.51             | n.a.        | n.a.        | n.a.       | n.a.       | n.a.          | n.a.         | n.a.           | n.a.        | 19.6%        | 18.1%        |
| ALMARAI CO                   | KSA          | 0.93             | 19.8        | 19.8        | 13.8       | 13.3       | 30.7%         | 30.7%        | 1.8%           | 2.2%        | 13.7%        | 14.0%        |
| JBS SA                       | Brazil       | 0.71             | 9.8         | 9.8         | 7.1        | 6.0        | 9.3%          | 10.3%        | 0.9%           | 3.1%        | 22.1%        | 23.9%        |
| ATRIA OYJ                    | Finland      | 0.78             | 8.9         | 8.9         | 6.0        | 5.2        | 5.8%          | 6.5%         | 6.1%           | 6.6%        | 4.1%         | 6.0%         |
| SAN MIGUEL FOOD AND BEVERAGE | Philippines  | 0.78             | 25.6        | 25.6        | 10.2       | 9.2        | 18.6%         | 18.5%        | 1.9%           | 2.0%        | 19.9%        | 20.1%        |
| WENS FOODSTUFFS GROUP CO - A | China        | 0.57             | 8.5         | 8.5         | 15.6       | 8.4        | 19.0%         | 28.0%        | 2.1%           | 4.1%        | 27.1%        | 41.8%        |
| WH GROUP LTD                 | China        | 0.93             | 10.7        | 10.7        | 7.8        | 7.2        | 9.6%          | 9.8%         | 3.4%           | 4.0%        | 14.0%        | 14.6%        |
| HARIM HOLDINGS CO LTD        | S. Korea     | 0.83             | 7.2         | 7.2         | 8.8        | 8.3        | 8.9%          | 9.1%         | 1.1%           | 1.1%        | 5.4%         | 6.4%         |
| SUNJIN CO LTD                | S. Korea     | 0.83             | 6.5         | 6.5         | 14.4       | 13.2       | 5.6%          | 5.4%         | 0.5%           | 1.0%        | 6.9%         | 10.1%        |
| PRIMA MEAT PACKERS LTD       | Japan        | 0.93             | 14.1        | 15.2        | 6.5        | 6.0        | 5.1%          | 5.4%         | 2.1%           | 2.5%        | 9.0%         | 8.2%         |
| ITOHAM YONEKYU HOLDINGS INC  | Japan        | 0.82             | 15.5        | 16.2        | 8.9        | 8.2        | 3.1%          | 3.3%         | 2.5%           | 2.5%        | 5.4%         | 5.5%         |
| HORMEL FOODS CORP            | USA          | 0.62             | 23.1        | 23.1        | 16.2       | 15.9       | 14.1%         | 14.0%        | 2.0%           | 2.2%        | 17.3%        | 16.1%        |
| MARFRIG GLOBAL FOODS SA      | Brazil       | 0.76             | 17.1        | 17.1        | 5.3        | 5.0        | 8.5%          | 8.4%         | 1.1%           | 1.5%        | 23.0%        | 10.0%        |
| MINERVA SA                   | Brazil       | 0.70             | 7.7         | 7.7         | 6.2        | 5.6        | 9.5%          | 9.8%         | 0.0%           | n.a.        | n.a.         | n.a.         |
| TYSON FOODS INC-CL A         | USA          | 0.75             | 12.2        | 12.2        | 10.4       | 8.8        | 9.7%          | 10.7%        | 1.8%           | 2.0%        | 15.1%        | 16.9%        |
| <b>Peer Group Av.</b>        |              | <b>0.76</b>      | <b>13.3</b> | <b>13.5</b> | <b>9.8</b> | <b>8.6</b> | <b>11.2%</b>  | <b>12.1%</b> | <b>1.9%</b>    | <b>2.7%</b> | <b>14.5%</b> | <b>15.1%</b> |
| <b>WIDAM FOOD CO</b>         | <b>Qatar</b> | <b>0.87</b>      | <b>12.2</b> | <b>10.3</b> | <b>8.5</b> | <b>7.9</b> | <b>18.1%</b>  | <b>18.6%</b> | <b>7.2%</b>    | <b>7.2%</b> | <b>25.3%</b> | <b>28.1%</b> |

Source: Bloomberg consensus figures for international peers, QNB FS Research

**Widam's 2019e & 2020e EV/EBITDA multiples are also below its international peers, which again is not justified given WDAM's higher EBITDA margins.** WDAM trades at 2019e & 2020e EV/EBITDA multiples of 8.5x and 7.9x, implying 14% and 8% discounts to international peers, respectively. These lower multiples are not justified with our expected EBITDA margins for WDAM (18.1% for 2019e and 18.6% for 2020e vs. international peers' 11.2% and 12.1%).

## DCF Assumptions:

- **We have used a 2pps higher ERP for WDAM due to the company's dependence on government compensation.** While calculating the Cost of Equity, we have considered a risk free rate of 2.7% (US 10-year government bond plus Qatar's 10 year CDS rate). We have also added 2pps to Widam's equity risk premium (ERP) which has increased its ERP to 10.30% for 1x Beta. As of 1H2019, Widam recorded QR283.7mn in revenue as government compensation, which is notably above its QR63.1mn in profits from continued operations. Given its dependence on government compensation, we believe a higher ERP is warranted.
- **We believe our top and bottom-line growth estimates could be conservative for Widam:**
  - 1) The company plans to open one of the largest slaughterhouses in the Middle East, with 3.5k heads slaughter capacity per day (which implies an annual capacity of c900k heads). Given that the company imports approximately 300k live sheep from Australia every year, its new slaughterhouse capacity could only be justified with higher expected business volumes. Moreover, the company is considering opening slaughterhouses in Australia.
  - 2) The company plans to enter the processed meat products market. Considering Widam's strong brand recognition and price advantage in imported products, coupled with its good relations with local retail chains, we are of the view Widam can be successful in this product line. However, to be on the safe side, we have not incorporated these prospective products into our estimates.

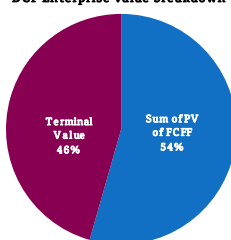
## DCF Summary

| WACC calculation               | 2019E          | 2020E        | 2021E        | 2022E        | 2023E        | 2024E        | 2025E        | 2026E        | 2027E        | 2028E        | Value Normalized |
|--------------------------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------------|
| <b>Cost of equity</b>          | 11.6%          | 11.6%        | 11.6%        | 11.6%        | 11.6%        | 11.6%        | 11.6%        | 11.6%        | 11.6%        | 11.6%        | 11.6%            |
| RF (US 10 yr + Qatar 10yr CDS) | 2.7%           | 2.7%         | 2.7%         | 2.7%         | 2.7%         | 2.7%         | 2.7%         | 2.7%         | 2.7%         | 2.7%         | 2.7%             |
| ERP                            | 8.97%          | 8.97%        | 8.97%        | 8.97%        | 8.97%        | 8.97%        | 8.97%        | 8.97%        | 8.97%        | 8.97%        | 8.97%            |
| ERP for 1x Beta                | 10.30%         | 10.30%       | 10.30%       | 10.30%       | 10.30%       | 10.30%       | 10.30%       | 10.30%       | 10.30%       | 10.30%       | 10.30%           |
| Beta                           | 0.87           | 0.87         | 0.87         | 0.87         | 0.87         | 0.87         | 0.87         | 0.87         | 0.87         | 0.87         | 0.87             |
| <b>After-tax cost of debt</b>  | 0.00%          | 0.00%        | 0.00%        | 0.00%        | 0.00%        | 0.00%        | 0.00%        | 0.00%        | 0.00%        | 0.00%        | 0.00%            |
| <b>Weight of Equity</b>        | 99.96%         |              |              |              |              |              |              |              |              |              |                  |
| <b>Weight of Debt</b>          | 0.04%          |              |              |              |              |              |              |              |              |              |                  |
| Mcap (QRmn)                    | 1,132          |              |              |              |              |              |              |              |              |              |                  |
| Debt (QRmn)                    | 0              |              |              |              |              |              |              |              |              |              |                  |
| Total (QRmn)                   | 1,133          |              |              |              |              |              |              |              |              |              |                  |
| <b>WACC</b>                    | <b>11.623%</b> | <b>11.6%</b> | <b>11.6%</b> | <b>11.6%</b> | <b>11.6%</b> | <b>11.6%</b> | <b>11.6%</b> | <b>11.6%</b> | <b>11.6%</b> | <b>11.6%</b> | <b>11.6%</b>     |

| DCF-Cash Flow to Firm (QR)               | 2019E              | 2020E             | 2021E              | 2022E              | 2023E              | 2024E              | 2025E              | 2026E              | 2027E              | 2028E              | Term. Value Normalized |
|------------------------------------------|--------------------|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|------------------------|
| <b>EBIT (1-tax rate)</b>                 | <b>93,099,166</b>  | <b>98,452,488</b> | <b>101,706,153</b> | <b>109,100,890</b> | <b>113,788,165</b> | <b>116,976,102</b> | <b>126,175,043</b> | <b>131,995,985</b> | <b>141,650,912</b> | <b>151,885,497</b> | <b>162,733,282</b>     |
| EBIT                                     | 95,486,324         | 100,976,911       | 104,314,003        | 111,898,348        | 116,705,810        | 119,975,489        | 129,410,300        | 135,380,497        | 145,282,987        | 155,779,997        | 166,905,930            |
| Tax rate                                 | 2.5%               | 2.5%              | 2.5%               | 2.5%               | 2.5%               | 2.5%               | 2.5%               | 2.5%               | 2.5%               | 2.5%               | 2.5%                   |
| <b>Depreciation</b>                      | <b>5,130,195</b>   | <b>5,271,053</b>  | <b>5,416,062</b>   | <b>5,565,358</b>   | <b>5,719,081</b>   | <b>5,877,377</b>   | <b>6,040,396</b>   | <b>6,208,295</b>   | <b>6,381,236</b>   | <b>6,559,387</b>   | <b>6,742,922</b>       |
| <b>Capital Expenditure</b>               | <b>5,000,000</b>   | <b>5,250,000</b>  | <b>5,512,500</b>   | <b>5,788,125</b>   | <b>6,077,531</b>   | <b>6,381,408</b>   | <b>6,700,478</b>   | <b>7,035,502</b>   | <b>7,387,277</b>   | <b>7,756,641</b>   | <b>8,144,473</b>       |
| % of Enterprise Value                    | 0.4%               | 0.4%              | 0.4%               | 0.5%               | 0.5%               | 0.5%               | 0.5%               | 0.6%               | 0.6%               | 0.6%               | 0.7%                   |
| <b>Change in WC</b>                      | <b>6,362,712</b>   | <b>7,524,483</b>  | <b>7,831,714</b>   | <b>8,232,452</b>   | <b>9,128,073</b>   | <b>6,059,392</b>   | <b>15,754,465</b>  | <b>6,934,266</b>   | <b>7,242,120</b>   | <b>7,564,576</b>   | <b>7,902,524</b>       |
| Chg. working capital days                | 4.2                | 4.8               | 4.9                | 4.9                | 5.3                | 3.4                | 8.4                | 3.6                | 3.7                | 3.8                | 3.8                    |
| Net Sales                                | 555,602,309        | 570,284,596       | 588,586,672        | 607,495,450        | 634,089,533        | 649,815,967        | 682,305,575        | 699,279,048        | 716,711,039        | 734,617,236        | 753,014,149            |
| Change in sales                          | 7.7%               | 2.6%              | 3.2%               | 3.2%               | 4.4%               | 2.5%               | 5.0%               | 2.5%               | 2.5%               | 2.5%               | 2.5%                   |
| <b>Free cash flow to the firm (FCFF)</b> | <b>86,866,645</b>  | <b>90,949,058</b> | <b>93,778,001</b>  | <b>100,645,670</b> | <b>104,301,642</b> | <b>110,412,680</b> | <b>109,760,496</b> | <b>124,234,512</b> | <b>133,402,751</b> | <b>143,123,667</b> | <b>153,429,208</b>     |
| <b>PV of FCF</b>                         | <b>86,866,645</b>  | <b>81,478,526</b> | <b>75,264,622</b>  | <b>72,365,233</b>  | <b>67,184,791</b>  | <b>63,715,300</b>  | <b>56,743,458</b>  | <b>57,538,290</b>  | <b>55,350,868</b>  | <b>53,200,543</b>  | <b>51,092,553</b>      |
| <b>Sum of PV of FCF</b>                  | <b>669,708,276</b> |                   |                    |                    |                    |                    |                    |                    |                    |                    |                        |

|                                   |                      |
|-----------------------------------|----------------------|
| <b>Terminal Value</b>             | <b>560,743,207</b>   |
| Terminal FCF                      | 51,092,553           |
| Terminal Growth Rate              | 2.5%                 |
| <b>Terminal WACC</b>              | <b>11.6%</b>         |
| <b>Enterprise value</b>           | <b>1,230,451,483</b> |
| +Cash and cash equivalents        | 289,479,796          |
| -Debt - long term and short term  | 0                    |
| -Minority Interest                | 0                    |
| <b>Fair Value of Equity</b>       | <b>1,519,931,280</b> |
| Shares o/s (mn)                   | 180,000,000          |
| <b>12M target price per share</b> | <b>8.44</b>          |
| <b>12 Month Upside Potential</b>  | <b>34.2%</b>         |

DCF Enterprise value breakdown



## DCF SENSITIVITY

### TARGET SHARE PRICE SENSITIVITY TO TERMINAL GROWTH RATE AND DISCOUNT RATE

| Terminal Discount Rate % | Terminal Growth Rate |      |       |       |       |
|--------------------------|----------------------|------|-------|-------|-------|
|                          | 1.0%                 | 1.5% | 2.5%  | 2.5%  | 3.0%  |
| 7.8%                     | 9.50                 | 9.83 | 10.70 | 10.68 | 11.24 |
| 8.3%                     | 9.22                 | 9.50 | 10.23 | 10.22 | 10.68 |
| 11.6%                    | 8.00                 | 8.13 | 8.44  | 8.44  | 8.62  |
| 9.3%                     | 8.75                 | 8.97 | 9.51  | 9.50  | 9.83  |
| 9.8%                     | 8.55                 | 8.75 | 9.22  | 9.22  | 9.50  |

### SHARE PRICE UPSIDE POTENTIAL SENSITIVITY TO TERMINAL GROWTH RATE AND DISCOUNT RATE

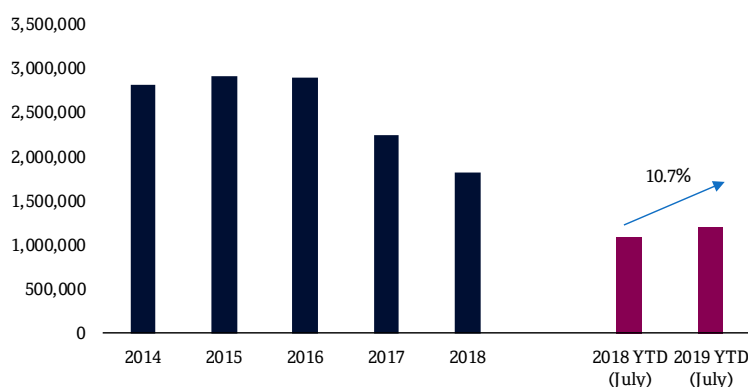
| Terminal Discount Rate % | Terminal Growth Rate |       |       |       |       |
|--------------------------|----------------------|-------|-------|-------|-------|
|                          | 1.0%                 | 1.5%  | 2.5%  | 2.5%  | 3.0%  |
| 10.6%                    | 51.1%                | 56.3% | 70.1% | 69.9% | 78.7% |
| 11.1%                    | 46.5%                | 51.1% | 62.7% | 62.5% | 69.9% |
| 11.6%                    | 27.2%                | 29.3% | 34.2% | 34.2% | 37.0% |
| 12.1%                    | 39.1%                | 42.6% | 51.2% | 51.1% | 56.3% |
| 12.6%                    | 36.0%                | 39.1% | 46.6% | 46.5% | 51.1% |

Source: QNB FS Research

## Investment Themes

- **The Strategic Food Security Projects (2019-2023) disclosed by the Ministry of Municipality and Environment (MME) in Mar'19 envisages that local production of red meat could go up from the current 18% to 30%.** Strategic Food Security Projects 2019-2023 aims to increase local red meat production to 21% by 2020, 24% by 2021 and 28% by 2022. The country is currently expanding its farming and production facilities in order to achieve these goals. In an attempt to support local red meat production, the Ministry plans to launch 10 new projects for producing green fodder, which would increase self-sufficiency from 56% to 63% by 2023. On fresh chicken and fresh milk fronts, Qatar's self-sufficiency already reached 124% and 106%, respectively, showing Qatar's determination in reaching full self-sufficiency in all key areas, including red meat.
- **Widam is a key contributor and one of the main players in Qatar's National Food Security Program.** In addition to being the exclusive provider of Australian sheep to the Qatari market, the company also has a leading role in expanding local livestock capacity. Widam currently has 64% market share in the Qatari live sheep & sheep meat market. In-line with the Strategic Food Security Program targets:
  - ⊖ **Widam plans to increase its slaughterhouse capacity notably from 3,100 heads/day to 5,100 heads in 2020** (assuming some rationalization of the existing capacity). The company plans to open one of the largest slaughterhouses in the Middle East at Al Wakrah/Doha during 2020 with a daily slaughtering capacity of 3,500 heads/day, which should bring its overall slaughterhouse capacity to 5,100 heads/day. Widam operates 7 slaughterhouses across Qatar, with an aggregate capacity of 3,100 heads/day.
  - ⊖ **Widam also supports local private sheep breeders by providing them with an outlet to sell their sheep easily, which encourages them to increase their livestock.** In Feb'19, the Ministry of Commerce & Industry and the Ministry of Municipality and Environment initiated a campaign to encourage local production. The campaign aims to support local breeders to develop strategic stocks of local sheep. Under the Mubadara program, Widam purchases live sheep at attractive prices (with government support) directly from the local farms as long as they comply with specific regulations and requirements. The second phase is the sale of sheep to citizens at subsidized prices.

### Tourist Arrivals to Qatar

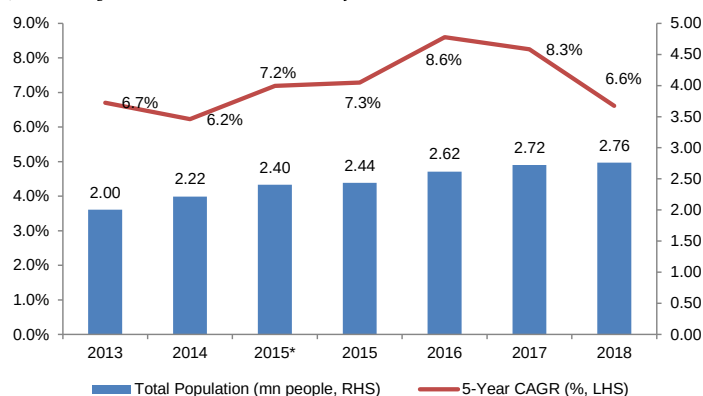


Source: Planning and Statistics Authority

- **Tourist arrivals to Qatar rose by 10.7% YoY during the first 7 months of 2019, which should be another driver for meat consumption.** Initiatives like Discover Qatar Stopover Program has had a positive impact on tourist arrivals and achieved success in realizing its goal to make Qatar a genuine seven-night destination for visitors, especially from Europe. It is noteworthy that number of visitors in 2018 (1.82mn) was 37.8% below 2015's peak (2.93mn), therefore we think there is substantial room for recovery, which means a potential increase in local meat demand.

- **Strong population growth (2.4% YoY as of Apr'19)** is likely to be a major driver for the local red meat consumption in the coming years. Qatar's population reached 2.77mn as of Apr'19, growing at a CAGR of 6.6% during 2013-2018. While Aug'19 population data (2.67mn) implies a 4.1% YoY increase, it excludes non-Qataris with residency permits who were outside the state's boundaries on 31 August 2019. The above-mentioned category are mostly expats & expat families that are temporarily out of country for family visits/school breaks and vacations. Data also excludes Qatari Nationals who were outside the State boundaries on 31 August 2019. Therefore, the headline population figure for Aug'19 may not be comparable to year-end 2018. We note population ticked up sequentially to 2.75mn as of end-September 2019, which still shows the effects of seasonality; October/November population numbers could be healthier for YTD comparisons.

***Qatar: Population & Growth (as of Mid-Year)***



(\*) Results of the General Population & Housing Census

Source: Qatar Planning and Statistics Authority

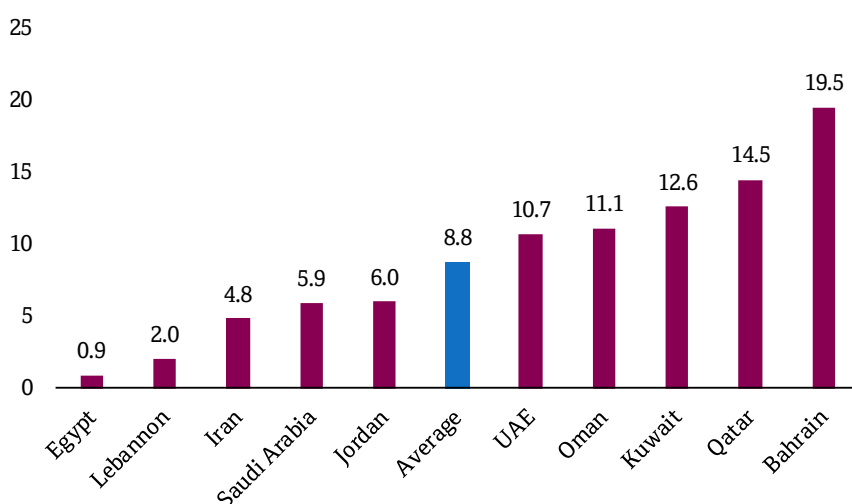
- **Qatar's highest GDP per capita (PPP adjusted) in the world, coupled with a growing economy should provide sufficient consumption power to residents:** As of 2018, Qatar has the highest GDP per capita (PPP adjusted) in the world with \$130.5k according to IMF's 2018 ranking, markedly above the major advanced economies (G7) average of \$53.1k and OECD's \$43.8k (as of 2017). IMF anticipates Qatar's real GDP per capita to increase further in the coming years (1.4% in 2019 and 2.9% in 2020).
- **Widam has a superior dividend yield, compared to both its international peers and other Qatari stocks.** In-line with 2018, we expect Widam to distribute QR0.45/share in dividends for both 2019 & 2020, which corresponds to dividend yields of 7.2%. It is noteworthy that Widam's 2019-2020e dividend yields are not only significantly above its international peers' 1.9% and 2.7%, respectively, but also above Doha Stock Exchange's averages of 4.2% and 4.3%.
- **Although DY is attractive, we note the company has headroom to expand dividends further considering its legal reserves will exceed its required 50% minimum level of share capital by 2020.** As required by Qatar's Commercial Law, Widam has to transfer 10% of its annual profits every year to its legal reserves. Once this reserve reaches 50% of the issued share capital (QR90mn), the company can discontinue these transfers. As of 2018, Widam's legal reserves rose to QR76.1mn after the company transferred QR10.8mn. We expect the company to record QR92.9mn of net profits in 2019 and QR110.0mn in 2020, which should bring its legal reserves to above 50% of its current share capital by 2020. We expect Widam to allocate a mere QR4.6mn to its legal reserves in 2020 and none in 2021. Hence, we foresee the company's 2020 and 2021 distributable profits increasing by 4.2% and 10.0%, respectively. This could create upside to DPS beyond our modeled forecasts.



## Investment Challenges

- Qatar's annual sheep meat consumption per capita is already high; therefore, further volume growth for Widam could mainly originate from population growth and/or tourism in the medium term.** It is worth mentioning while Middle Eastern average of 8.8kg/pa is below the Australian average (9.7kg), it is materially above the OECD average (1.3kg as of 2017). Due to its higher price, sheep meat – especially lamb – is still considered as a niche protein; according to Meat & Livestock Australia (MLA), sheep meat constitutes 5% of total global meat consumption (excluding seafood), notably below beef & veal's 21%. Even in the developed world, sheep meat consumption per capita for the OECD countries was 1.3kg vs. beef's 14.5kg in 2017. Meanwhile, global sheep meat demand is estimated to grow moderately at 2% pa over the next 5 years.

*MENA-10 Countries per Capita Sheep Meat Consumption (\*)*

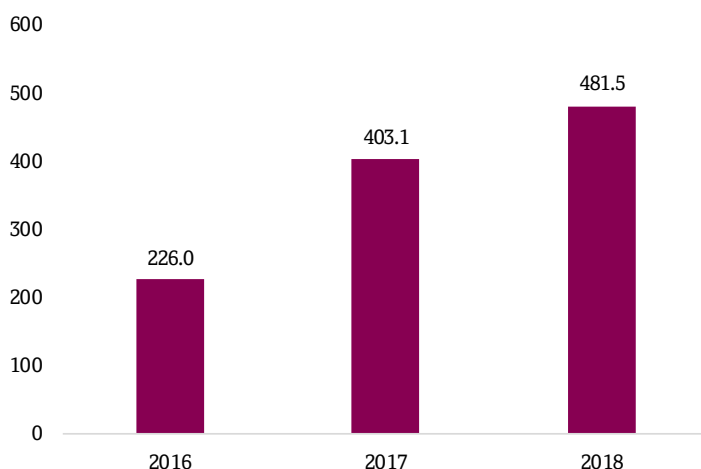


\*kg cwe/head/year  
 Source: GIRA 2018 forecast figures

- WDAM's farm in Sudan continues to increase its meat production; however, its impact on the company's financial results were limited due to the continuous depreciation in the Sudanese Pound vs. Qatari Riyal over the past three years.** Widam established a branch in Sudan in 2007, which contributes to supplying the Qatari market with sheep, live and chilled cows. The branch owns a fattening farm with a capacity of 6,000 heads in Khartoum. It also owns land for agricultural production with an average annual output capacity of 600 tons of fodder.

In 2017, Widam recorded QR10.8mn of revenue from its farm in Sudan, which declined to QR4.7mn in 2018 and further to QR1.2mn (51.4% YoY fall) as of 1H2019. This is primarily due to the depreciating Sudanese Pound against Qatari Riyal, as Sudan Farm's meat production rose from 226 tons in 2016 to 403 tons in 2017 and a further 482 tons in 2018. We believe the company has managed to establish some hedging mechanisms, which should reduce f/x losses from the Sudan operation in the coming quarters. Nevertheless, compared to the company's imports from the Australia, Sudan operation is quite small, accounting for circa 1% of the company's overall meat sales volume.

## *Meat Supply of Widam's Sudan Branch to the Qatari Market (tons)*



Source: Widam

- **While Widam's ongoing operations & results continue to grow, its 2019 EPS is likely to be depressed driven by Al Rkiya termination losses and lower other income.** In 1H2019, Widam discontinued the Al Rkiya breeding farm and disposed of all its biological assets at a net loss of QR13.8mn. Excluding these losses, Widam should have recorded QR63.1mn in net earnings with a 3.9% rise YoY vs. the announced profit figure of QR49.2mn, which was down 18.8% YoY. Going forward, the company plans to use Al Rkiya farm's land for parking Widam's monthly imports of 30-40k livestock. The new breeding farm in Al Wakrah will be adjacent to the new slaughterhouse, thereby enjoying logistical advantages.

**We forecast WDAM's 2019 net earnings at QR92.9mn with a 14.2% decline YoY due to:** 1) QR13.8mn of losses recorded in 2Q2019 from the closure of the Al Rkiya Farm, 2) An estimated 31.7% decline in other income to QR10.7mn from QR15.6mn in 2018 (which includes "profits from bank deposits", as reported by the company until end-2018). It is noteworthy that 2018's other income was extraordinarily high due to non-recurring items, rising 64.2% over 2017's QR9.53mn. 3) A 7.2% rise in SG&A YoY due to one-off items. It is encouraging to note we expect the company to record 5.0% gross profit growth in 2019e, primarily driven by an expected 5.3% growth in sheep meat volumes in 2019. We also anticipate Widam's EBIT to increase by 4.9% over 2018, which is likely to be overshadowed by Al Rkiya losses and lower other income.

**On a positive note, we expect Widam to record an 18.0% YoY rise in 2020's net earnings.** We forecast Widam to record a 5.6% YoY EBIT growth, thanks to an expected 2.6% rise in revenue driven by an expected 2.4% rise in sheep meat volumes and supported by a 4% decline in SG&A. While we expect other income to decline in 2020 (due to declining interest rates) by 18.9% YoY, the lack of Al Rkiya losses should lead to an 18.0% increase in Widam's bottom-line.

- **High concentration of Australian sheep & sheep meat in Widam's import portfolio (95% of all Widam's sheep & sheep meat imports).** As the bulk of Widam's imports are from Australia, diversification of its supply channels is a main objective of Widam in order to protect itself from supply disruptions. As observed last year, it could be harder to import live sheep from Australia during the summer months. Therefore, in addition to Australia, the company imports red meat from various countries such as Sudan, Romania, Azerbaijan, Somalia and Spain. Moreover, WDAM is considering opening slaughterhouses in Australia (which would allow the company to import sheep meat rather than live sheep during the summer months).



## Catalysts

- **Success of the new processed products line:** As of 2019, new processed product line's impact on total sales is likely to be marginal. However, given the high profitability of these products coupled with Widam's strong brand recognition in Qatar (which could help boost sales volumes), the processed meat products business could have a noticeable impact on the company's bottom-line in the coming years.
- **Investors should perceive recovery in EPS in 2020 positively.**
- **An increase in DPS in 2020-2021 beyond our modeled estimates is also a positive.**

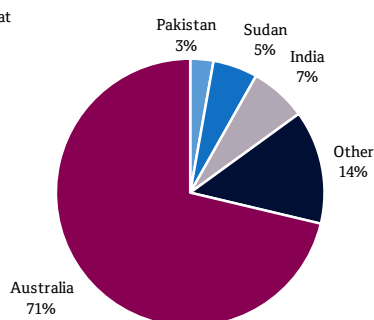
## Company Overview

**Widam Food is Qatar's largest red meat provider.** Previously known as Mawashi and Qatar Meat and Livestock Co., Widam exclusively imports subsidized Australian live sheep & sheep meat to the Qatari market. It also supplies the Qatari market with other types of meat on a non-exclusive basis. Widam Food sells various types of live, chilled and frozen meat, such as live and slaughtered Australian, Syrian, Sudanese sheep as well as cooled Pakistani and Indian sheep. The company also imports Australian, Somali and Brazilian cow meat to Qatar. The company has a fleet of refrigerated trucks and vehicles and provides home delivery services for retail customers.

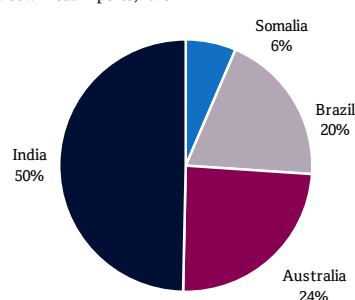
In Dec'15, Widam signed a contract with the State of Qatar to supply the market with Australian livestock and meat, effective from Jan'16. The State of Qatar agreed to compensate the company for its direct and indirect operating cost with a fixed amount per kilogram. During 2018, Armenian and Sudanese meat were included and compensated by the State of Qatar. As of 1H2019, Widam recorded QR283.7mn in revenue as government compensation, which is notably above its QR63.1mn in profits from continuing operations.

### *Qatar's Sheep & Cow Livestock & Meat Imports by Country (2018)*

Qatar: Sheep and Sheep Meat Imports, 2018



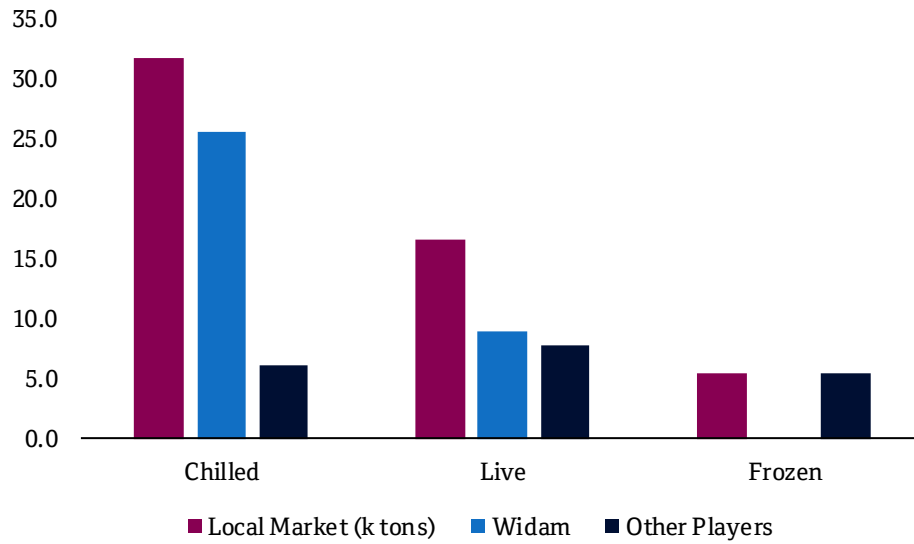
Qatar: Cow and Cow Meat Imports, 2018



Source: Ministry of Statistics

**Widam is overwhelmingly the sole importer of Australian sheep & sheep meat given its 95% share in imports from Australia as of 2018.** Imports from Australia (34.8k tons/cwe as of 2018) makes up more than 64% of the sheep & sheep meat market in Qatar. Diversification of its supply channels is a main objective of Widam. In addition to Australia, the company imports red meat from various countries such as Sudan, Romania, Azerbaijan, Somalia and Spain. After the start of the blockade, Widam successfully maintained uninterrupted red meat supply to Qatar, which strengthened its role as a key player in Qatar's Food Security Program.

*Qatar's Sheep & Sheep Meat Consumption and Widam's Stake (2018)*



Source: Ministry of Statistics

## Detailed Financial Statements

### Income Statement (QRmn)

|                                                                        | 2017           | 2018           | 2019e          | 2020e          | 2021e          |
|------------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>                                                         | <b>495,742</b> | <b>515,916</b> | <b>555,602</b> | <b>570,285</b> | <b>588,587</b> |
| COGS                                                                   | 774,916        | 931,564        | 935,041        | 966,148        | 997,028        |
| Depreciation                                                           | 4,112          | 3,464          | 4,626          | 4,742          | 4,860          |
| Government Compansation                                                | 430,853        | 565,725        | 538,074        | 557,805        | 574,422        |
| <b>Gross Profit</b>                                                    | <b>147,567</b> | <b>146,614</b> | <b>154,010</b> | <b>157,200</b> | <b>161,121</b> |
| SG&A                                                                   | 48,904         | 54,107         | 58,019         | 55,694         | 56,251         |
| Depreciation                                                           | 545            | 504            | 504            | 529            | 556            |
| <b>Operating Income</b>                                                | <b>98,117</b>  | <b>92,002</b>  | <b>95,486</b>  | <b>100,977</b> | <b>104,314</b> |
| EBITDA                                                                 | 102,775        | 95,970         | 100,617        | 106,248        | 109,730        |
| EBITDA Margin %                                                        | 20.7%          | 18.6%          | 18.1%          | 18.6%          | 18.6%          |
| Gain from change in fair value less costs to sell of biological assets | 0              | 768            | 0              | 0              | 0              |
| Provision Expenses                                                     | 0              | 0              | 0              | 0              | 0              |
| FX gains (losses)                                                      | 434            | -28            | 622            | 0              | 0              |
| Other Income                                                           | 9,529          | 15,651         | 10,691         | 8,670          | 9,033          |
| <b>Total Other Income</b>                                              | <b>9,963</b>   | <b>16,391</b>  | <b>11,313</b>  | <b>8,670</b>   | <b>9,033</b>   |
| Financial Expenses                                                     | 0              | 0              | 0              | 0              | 0              |
| <b>Net profit before discontinued operations</b>                       | <b>108,080</b> | <b>108,393</b> | <b>106,800</b> | <b>109,647</b> | <b>113,347</b> |
| Discontinued operations                                                | 0              | 0              | -13,846        | 0              | 0              |
| Non controlling interests                                              | 0              | 0              | 0              | 0              | 0              |
| <b>Net Income</b>                                                      | <b>108,080</b> | <b>108,393</b> | <b>92,954</b>  | <b>109,647</b> | <b>113,347</b> |
| <b>Net Profit Margin</b>                                               | <b>21.8%</b>   | <b>21.0%</b>   | <b>16.7%</b>   | <b>19.2%</b>   | <b>19.3%</b>   |
| <b>Shares Outstanding (mn)</b>                                         | <b>180,000</b> | <b>180,000</b> | <b>180,000</b> | <b>180,000</b> | <b>180,000</b> |
| <b>EPS</b>                                                             | <b>0.60</b>    | <b>0.60</b>    | <b>0.52</b>    | <b>0.61</b>    | <b>0.63</b>    |
| <b>DPS</b>                                                             | <b>0.43</b>    | <b>0.45</b>    | <b>0.45</b>    | <b>0.45</b>    | <b>0.45</b>    |

Note: EPS based on current number of shares

### Balance Sheet (QRmn)

|                                                                   | 2017           | 2018           | 2019e          | 2020e          | 2021e          |
|-------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash & Cash Equivalents                                           | 47,704         | 15,561         | 17,117         | 17,117         | 17,117         |
| S/T Deposits                                                      | 250,000        | 280,000        | 268,362        | 281,688        | 293,783        |
| Accounts Receivable & Prepayments                                 | 260,690        | 280,737        | 302,333        | 315,610        | 328,964        |
| Due From Related Parties                                          | 0              | 0              | 0              | 0              | 0              |
| Biological assets/ Agricultural produce                           | 1,286          | 18,074         | 0              | 0              | 0              |
| Inventories                                                       | 8,955          | 18,309         | 19,213         | 22,499         | 25,950         |
| <b>Total Current Assets</b>                                       | <b>568,636</b> | <b>612,681</b> | <b>607,026</b> | <b>636,914</b> | <b>665,814</b> |
| Right of use assets                                               | 0              | 0              | 10,661         | 11,129         | 11,600         |
| Financial assets at fair value through other comprehensive income | 6,175          | 4,000          | 4,000          | 4,000          | 4,000          |
| Property, Plant & Equipment                                       | 17,552         | 18,599         | 24,248         | 25,461         | 26,734         |
| <b>Non-Current Assets</b>                                         | <b>46,569</b>  | <b>40,231</b>  | <b>57,424</b>  | <b>60,030</b>  | <b>62,746</b>  |
| <b>Total Assets</b>                                               | <b>615,205</b> | <b>652,912</b> | <b>664,449</b> | <b>696,944</b> | <b>728,560</b> |
| Short-Term Debt                                                   | 483            | 483            | 507            | 532            | 559            |
| Accounts Payable & Accruals                                       | 260,364        | 273,362        | 271,427        | 280,457        | 289,421        |
| Other Payables                                                    | 0              | 0              | 0              | 0              | 0              |
| Finance lease liability                                           | 0              | 0              | 6,722          | 6,050          | 5,445          |
| <b>Current Liabilities</b>                                        | <b>260,846</b> | <b>273,844</b> | <b>278,655</b> | <b>287,038</b> | <b>295,424</b> |
| Islamic borrowings                                                | 754            | 272            | 270            | 279            | 288            |
| Long-Term Debt                                                    | 0              | 0              | 3,296          | 2,966          | 2,670          |
| Employees end of service benefits                                 | 11,604         | 13,368         | 15,372         | 16,140         | 16,947         |
| <b>Non-Current Liabilities</b>                                    | <b>12,359</b>  | <b>13,640</b>  | <b>18,937</b>  | <b>19,385</b>  | <b>19,905</b>  |
| <b>Total Liabilities</b>                                          | <b>273,205</b> | <b>287,484</b> | <b>297,593</b> | <b>306,424</b> | <b>315,328</b> |
| <b>Total Shareholder's Equity</b>                                 | <b>342,000</b> | <b>365,428</b> | <b>366,856</b> | <b>390,520</b> | <b>413,232</b> |
| Minority Interest                                                 | 0              | 0              | 0              | 0              | 0              |
| <b>Liabilities &amp; Shareholder's Equity</b>                     | <b>615,205</b> | <b>652,912</b> | <b>664,449</b> | <b>696,944</b> | <b>728,560</b> |

Source: Company data, QNB FS Research

## Cash Flow Statement (QRmn)

|                                      | 2017           | 2018           | 2019e          | 2020e          | 2021e          |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Cash Flow From Operations</b>     | 94,959         | 77,667         | 75,596         | 104,354        | 107,805        |
| Cash Flow From Investment Activities | -8,698         | 3,039          | 486            | -5,250         | -5,513         |
| Cash Flow From Financing Activities  | -63,483        | -76,983        | -83,314        | -83,314        | -87,894        |
| Cash Flow From Other Activities      | -1,868         | -5,866         | -2,850         | -2,456         | -2,285         |
| <b>Change In Cash</b>                | <b>20,910</b>  | <b>-2,143</b>  | <b>-10,082</b> | <b>13,335</b>  | <b>12,113</b>  |
| Cash Beginning of Period             | 276,794        | 297,704        | 295,562        | 285,480        | 298,814        |
| <b>Cash End of Period</b>            | <b>297,704</b> | <b>295,562</b> | <b>285,480</b> | <b>298,814</b> | <b>310,927</b> |

Source: Company data, QNB FS Research

## Ratio Analysis

### Key Metrics

| Particulars                                         | 2017  | 2018    | 2019e   | 2020e | 2021e |
|-----------------------------------------------------|-------|---------|---------|-------|-------|
| <b>Growth Rates</b>                                 |       |         |         |       |       |
| Revenue                                             | 11.6% | 4.1%    | 7.7%    | 2.6%  | 3.2%  |
| Gross Profit                                        | 12.4% | (0.6%)  | 5.0%    | 2.1%  | 2.5%  |
| EBITDA                                              | 7.6%  | (6.6%)  | 4.8%    | 5.6%  | 3.3%  |
| EBIT                                                | 8.3%  | (6.6%)  | 4.9%    | 5.6%  | 3.3%  |
| PAT/EPS                                             | N/M   | 0.3%    | (14.2%) | 18.0% | 3.4%  |
| DPS                                                 | N/M   | 5.9%    | 0.0%    | 0.0%  | 0.0%  |
| CFPS                                                | N/M   | (18.2%) | (2.7%)  | 38.0% | 3.3%  |
| <b>Operating Ratios</b>                             |       |         |         |       |       |
| Gross Margin                                        | 29.8% | 28.4%   | 27.7%   | 27.6% | 27.4% |
| Gross Margin, Excluding Depreciation & Amortization | 29.8% | 28.4%   | 27.7%   | 27.6% | 27.4% |
| EBITDA Margin                                       | 20.7% | 18.6%   | 18.1%   | 18.6% | 18.6% |
| EBIT Margin                                         | 20.6% | 18.5%   | 18.0%   | 18.5% | 18.5% |
| Net Margin                                          | 21.8% | 21.0%   | 16.7%   | 19.2% | 19.3% |
| <b>Working Capital Ratios</b>                       |       |         |         |       |       |
|                                                     | 76    | 112     | 120     | 126   | 131   |
| Inventory Days                                      | 4     | 7       | 8       | 9     | 10    |
| Average Collection Period                           | 199   | 212     | 218     | 224   | 227   |
| Payable Days                                        | 123   | 107     | 106     | 106   | 106   |
| <b>Finance Ratios</b>                               |       |         |         |       |       |
| Debt-Equity Ratio                                   | 0%    | 0%      | 1%      | 1%    | 1%    |
| Net Debt-Equity Ratio                               | -87%  | -81%    | -77%    | -76%  | -74%  |
| Net Debt-to-Capital                                 | -664% | -419%   | -331%   | -310% | -291% |
| Net Debt-to-EBITDA                                  | (2.9) | (3.1)   | (2.8)   | (2.8) | (2.8) |
| Interest Coverage                                   | N/M   | N/M     | N/M     | N/M   | N/M   |
| <b>Return Ratios</b>                                |       |         |         |       |       |
| ROIC                                                | 29.8% | 26.1%   | 27.0%   | 26.8% | 26.2% |
| ROE                                                 | 31.6% | 29.7%   | 25.3%   | 28.1% | 27.4% |
| ROA                                                 | 17.6% | 16.6%   | 14.0%   | 15.7% | 15.6% |
| FCF Yield                                           | 80.5% | 64.7%   | 62.4%   | 87.5% | 90.3% |
| <b>Liquidity Ratios</b>                             |       |         |         |       |       |
| Current Ratio                                       | 2.2   | 2.2     | 2.2     | 2.2   | 2.3   |
| Quick Ratio                                         | 2.1   | 2.2     | 2.1     | 2.1   | 2.2   |
| <b>Valuation</b>                                    |       |         |         |       |       |
| EV/Sales                                            | 1.7   | 1.6     | 1.5     | 1.5   | 1.4   |
| EV/EBITDA                                           | 8.1   | 8.7     | 8.5     | 7.9   | 7.5   |
| EV/EBIT                                             | 8.2   | 8.8     | 8.5     | 7.9   | 7.6   |
| P/E                                                 | 10.5  | 10.4    | 12.2    | 10.3  | 10.0  |
| P/CF                                                | 1.2   | 1.5     | 1.5     | 1.1   | 1.1   |
| P/BV                                                | 0.3   | 0.3     | 0.3     | 0.3   | 0.3   |
| Dividend Yield                                      | 5.1%  | 6.1%    | 7.2%    | 7.2%  | 7.2%  |
| FCF Yield                                           | 80.5% | 64.7%   | 62.4%   | 87.5% | 90.3% |

Source: Company data, QNB FS Research

### Recommendations

*Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*

|                       |                      |
|-----------------------|----------------------|
| <b>OUTPERFORM</b>     | Greater than +20%    |
| <b>ACCUMULATE</b>     | Between +10% to +20% |
| <b>MARKET PERFORM</b> | Between -10% to +10% |
| <b>REDUCE</b>         | Between -10% to -20% |
| <b>UNDERPERFORM</b>   | Lower than -20%      |

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

|            |                                   |
|------------|-----------------------------------|
| <b>R-1</b> | Significantly lower than average  |
| <b>R-2</b> | Lower than average                |
| <b>R-3</b> | Medium / In-line with the average |
| <b>R-4</b> | Above average                     |
| <b>R-5</b> | Significantly above average       |

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