Baladna (BLDN)

Recommendation	Accumulate	Risk Rating	R-3
Share Price	QR1.561	Target Price	QR1.767
Implied Upside	13.2%		

Key Data

Current Market Price	QR1.561
Dividend Yield (%)	0.0
Bloomberg Ticker	BLDN QD
ADR/GDR Ticker	N/A
Reuters Ticker	BLDN.QA
ISIN	QA000T98R9J4
Sector*	Consumer Goods
52wk High/Low (QR)	1.790/1.187
3-m Average Vol. (mn)	7.5
Mkt. Cap. ($ bn/QR bn)	0.8/3.0
EV ($ bn/QR bn)	1.3/4.8
Shares O/S (mn)	1,901.0
FO Limit* (%)	49.0
FO (Institutional)* (%)	3.0
1-Year Total Return (%)	-12.0
Fiscal Year-End	December 31

Source: Bloomberg (as of August 6, 2023), *Qatar Exchange (as of August 6, 2023); Note: FO is foreign ownership

Flat 2Q2023 Bottom-Line As Finance Costs Double; Maintain Accumulate

- **Baladna's 2Q2023 attributable profit grew 2.7%/11.3% YoY/QoQ to QR22.3mn. While the top-line grew 7.2%/3.1% YoY/QoQ to QR262.2mn and margins expanded – as likely the benefit of declining feed costs is beginning to accrue – that benefit did not filter through to the bottom-line due to a spike in finance costs.** The gross profit margin improved to 21.4% from 19.7% in 2Q2022 (1Q2023: 21.3%), which saw the gross profit rising 16.7% as strong leverage benefits kicked in.
- **Market interest rate tightening cycle took a toll as the margin-expansion benefits did not filter through to the bottom-line.** Finance costs and bank charges rose 93.8% to QR22.5mn, and this effectively took out the revenue growth and margin-expansion benefit. There was, however, another boost to the bottom-line from fair value gains and dividend income which grew a combined 4.4x/8.4x YoY/QoQ to QR4.0mn.
- **Overall, we expect strong revenue and bottom-line growth in the short- to medium-term on the back of market shares gains in newer products – primarily evaporated milk and juice.** We expect revenue to grow 8.7% in FY2023, 21.0% in FY2024 and 16.5% in FY2025. Consequently, we see net profit rising 11.5% in FY2023, followed by a 96.2% jump in FY2024, and 20.0% in FY2025. Most of the growth should be driven by the newly-launched evaporated milk product as well as continued market share gains of juice and cheese products. A considerable part of evaporated milk sales is expected to come from multi-year contracts with the government and other B2B customers (incl. HORECA), ensuring a steady revenue flow. Volume growth is also expected to come from increased marketing focus on HORECA customers.
- **We see margin expansion from increased capacity utilization, as volumes grow, coupled with the benefit of declining soft commodity prices and catch-up price increases**. In the near term, this benefit is largely offset by rising and high interest rates as high finance costs become a burden in FY2023. **However, we see a gradual decline in finance costs from FY2024 as the group gradually pays down its debt while capex normalization boosts FCF**. Increasing FCF should be used to reduce the debt burden and restart distributions to shareholders – we expect a resumption of dividends for FY2023. Baladna has been on a heavy investment cycle since it expanded operations in 2017, but we see capex requirements subsiding in the near term, which bodes well for its valuation and investor perception.
- **Promising international expansion strategy as the company has signed MoUs with several parties in different countries** to export its model which has been remarkable at home. Prima facie, the pay-off for exporting the "Baladna Model" mimics that of private equity. This is not in our base model. Some of the countries in the mix are Malaysia, the Philippines, Uzbekistan, Kazakhstan and Indonesia. Further, **Baladna is pursuing a backward integration strategy to secure and control the production of its animal feed**: It is in the process of setting up offshore companies to grow animal feed in Romania and Algeria. In addition, **the group is building an associate/strategic stake in Egypt's listed food producer Juhayna** – it now holds 15% of Juhayna's public equity, an investment outlay of QR199.3mn to date. **Locally, it has acquired E-life Detergent, and management says it is still actively seeking other investment opportunities.**
- **We maintain an Accumulate rating and a 12-month TP of QR1.767, implying a 13.2% upside potential.** Our TP is a weighted average of various valuation models: DCF, EBITDA Exit Multiple and Relative-Valuation methodologies. Our primary thesis is that, internally, the headway for volume growth is supported by ample manufacturing capacity and low market shares in select product lines. Inorganically, the scope to export its model creates PE-like payoff optionality. We note that last year or FY2022 was a particularly difficult year for Baladna due to imported costs of inputs which culminated in BLDN skipping declaring a dividend. We believe, however, that Baladna's finances will shore up in FY2023, which gives it the ability to resume paying dividends. We also note that while Baladna's capital return ratios are relatively low, they should gradually improve as plant utilization increases and capex normalizes.
- **Key risks: (1)** Price controls **(2)** Volatile soft commodity prices **(3)** Cessation of government support **(4)** Rising interest rates on elevated debt burden **(5)** Animal disease outbreak **(6)** Dairy alternatives, i.e., plant-based substitutes.

Key Financial Data and Estimates

Group	2022a	2023e	2024e	2025e
EPS (QR)	0.042	0.047	0.093	0.111
P/E (x)	35.49	31.84	16.23	13.53
EV/EBITDA (x)	16.07	13.52	11.42	11.03
DPS (QR)	-	0.04	0.07	0.08
DY (%)	0.0%	2.4%	4.7%	5.6%

Source: Company data, QNBFS Research; Note: All data based on current number of shares; These estimates may not reflect the most recent quarter

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Recommendations *Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*		Risk Ratings *Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
OUTPERFORM	Greater than +20%	**R-1**	Significantly lower than average
ACCUMULATE	Between +10% to +20%	**R-2**	Lower than average
MARKET PERFORM	Between -10% to +10%	**R-3**	Medium / In-line with the average
REDUCE	Between -10% to -20%	**R-4**	Above average
UNDERPERFORM	Lower than -20%	**R-5**	Significantly above average

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