

Baladna (BLDN)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR1.388	Target Price	QR1.767
Implied Upside	27.3%		

2Q2024 Earnings Beat on Higher GP Margin and Lower SG&A: Maintain Outperform

We reiterate our Outperform rating as the earnings momentum narrative we previously highlighted has surpassed even our most optimistic projections. In 2Q2024, Baladna's net income surged by more than 1.3x, driven by substantial margin expansion, and we anticipate robust full-year earnings growth. Consequently, we have revised our FY2024e margin assumptions upward to reflect the latest performance. Despite revenue falling short of our estimates, it still exhibited solid growth, fueled by market share gains in key product categories as sales volumes in both HORECA and retail channels increased. We see additional upside potential for the stock, supported by an attractive forward dividend yield estimate, growing operating cash flows, and sustained earnings momentum as management prioritizes operational efficiency. We maintain our QR1.767 PT.

Highlights

- Strong Net Profit Growth.** Baladna's 2Q2024 attributable profit jumped 134.2%/8.1% YoY/QoQ to QR52.2mn, ahead of our QR45.1mn estimate. The NP margin came in at 18.5% better than the 14.5% expected, from 8.5%/15.4% in 2Q2023/1Q2024. The growth in earnings is primarily due to expanding gross profit margins buttressed by strong operational efficiency. It looks like management is delivering on its promise to streamline operations. GP margin improved to 25.1% (vs. 23.5% expected), up from 21.4%/22.9% in 2Q2023/1Q2024, the highest in six quarters.
- Improving Operational Efficiency.** We estimate that the EBITDA margin (ex. government support) improved to 23.8% (vs. 19.8% modeled) from 19.4%/20.7% in 2Q2023/1Q2024 driven by significantly lower SG&A expenses, which fell 13.2%/10.2% YoY/QoQ. Moreover, the re-negotiated funding terms as well as financial investments fair value gains helped the bottom line. Looking ahead, we expect to see further margin improvement at the trading & manufacturing level due to manufacturing efficiencies driven by product value engineering.
- Solid Top Line Growth.** BLDN's 1Q2024 revenue rose 7.5% YoY but declined 9.9% sequentially to QR281.9mn in 2Q2024, below our estimate of QR311.3mn. Dairy sales rose 5.2% YoY but declined 9.0% sequentially to QR249.1mn. Juice sales increased 4.9% YoY but edged lower by 1.4% QoQ to QR18.8mn. Other sales (dairy byproducts + detergents) jumped 133.0% YoY but fell 53.4% to QR9.3mn.
- Good Balance Between Short- and Long-Term Value Drivers.** In the near term we see Baladna creating value from strong sales volume growth and expanding GPM (due to declining commodity prices and targeted interventions by management) coupled with declining SG&A expenses. In the medium term, margin expansion from product value engineering, increased capacity utilization and cost-optimization should bolster its valuation further. Cash flows from operations should also continue to improve partly emanating from the recycling of working capital. Furthermore, we see a gradual decline in finance costs as the group steadily pays down its debt while capex normalization boosts FCF, this is on top of the recently re-negotiated finance terms. Baladna has been on a heavy investment cycle since it expanded operations in 2017, but we see capex requirements subsiding, which bodes well for its valuation and investor perception as distributions to shareholders increase.

Catalysts

- Catalysts:** (1) Market share gains (2) New product launches (3) Moderating feed costs (4) Advanced manufacturing capabilities (5) Fruition of international expansion plans, including exporting the "Baladna Model."

Recommendation, Valuation and Risks

- Recommendation and Valuation:** We maintain an Outperform rating on the name and our 12-month TP of QR1.767, implying a 27.3% upside potential. Our TP is a weighted average of various valuation models: DCF, EBITDA Exit Multiple & 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. That will be complemented by considerable scope for margin expansion. Inorganically, the scope to export its model creates PE-like payoff optionality. 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) High and sticky interest rates on elevated debt burden (5) Animal disease outbreak (6) Dairy alternatives, i.e., plant-based substitutes.

Key Financial Data and Estimates

Group	2023a	2024e	2025e	2026e	2027e
EPS (QR)	0.058	0.110	0.117	0.134	0.156
P/E (x)	24.07	12.65	11.89	10.33	8.91
EV/EBITDA (x)	16.37	12.30	11.38	10.38	9.33
DPS (QR)	0.07	0.10	0.11	0.13	0.15
DY (%)	5.0%	7.5%	8.0%	9.2%	10.7%

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

Key Data

Current Market Price	QR1.388
Dividend Yield (%)	5.0
Bloomberg Ticker	BLDN QD
ADR/GDR Ticker	N/A
Reuters Ticker	BLDN.QA
ISIN	QA000T98R9J4
Sector*	Consumer Goods
52wk High/Low (QR)	1.570/1.050
3-m Average Vol. (mn)	10.5
Mkt. Cap. (\$ bn/QR bn)	0.7/2.6
EV (\$ bn/QR bn)	1.2/4.4
Shares O/S (mn)	1,901.0
FO Limit* (%)	49.0
FO (Institutional)* (%)	3.6
1-Year Total Return (%)	-2.8
Fiscal Year-End	December 31

Source: Bloomberg (as of July 23, 2024), *Qatar Exchange (as of July 23, 2024); Note: FO is foreign ownership

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Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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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