

Baladna Company (BLDN)

Recommendation	OUTPERFORM	Risk Rating	R-4
Share Price	QR1.20	Target Price	QR1.569
Implied Upside	30.7%		

New Products and Exports to Drive Growth; Initiate with Outperform

Baladna, a key pillar of the Qatari National Food Security program, is the undisputed leader in the Qatari dairy market. The company spent QR2.7bn (\$0.74bn) over the last three years to expand its capacity and production capabilities. Therefore, BLDN has ample capacity for growth through upcoming new and value-added products as well as exports. Baladna recorded a 115.4% top-line growth in 2019, which should be followed by an expected 95.2% in 2020 and 16.8% in 2021, as BLDN plans to increase the number of Stock Keeping Units (SKUs) from c.167 at the end of 2019 to c.261 by the end of 2020. While we have not yet incorporated its potential impact in our forecasts and valuation, Baladna expects to collaborate with the Federal Land Consolidation and Rehabilitation Authority of Malaysia (FELCRA) to implement the “Baladna model” in Malaysia. This is an attempt to increase Malaysia’s self-sufficiency in dairy products by doubling the volume of local fresh milk production with an increase of 50-55mnLt/ya. Since its IPO, BLDN shares have outperformed the QE Index, rising by 18.9% vs. QE Index’s 13.7% decline due to: 1) Strong 1Q2020 results, 2) The announcement of interim dividends of QR0.021/share in April and 3) MSCI EM Small Cap Index inclusion in May. We expect BLDN shares to maintain their upbeat performance, bolstered by attractive valuation and the contribution of new products to its financial results. **We initiate coverage with an OUTPERFORM rating.**

Highlights

- Listed on the QSE in December 2019, Baladna Q.P.S.C (or Baladna) is a holding company that owns a 100% stake in Baladna Food Industries W.L.L. (BFI), Qatar’s leading dairy producer.** Baladna is the undisputed leader in the Qatari dairy market with its +85.6% market share in fresh milk, 74.8% in UHT milk, 40.0% in fresh laban and 32.6% in yogurt. BFI owns two farms with a 24k-cow capacity, 6 rotary milking parlors, in-house feed processing facility and a water treatment plant. BFI’s founders own a 25% stake in Baladna, resulting in a 75% free float for the company. The State of Qatar, which is represented by the Ministry of Commerce and Industry, also has a “Special Share” in Baladna.
- Defensive characteristics against Coronavirus complications:** Dairy products have low demand volatility & price elasticity during turbulent times. Moreover, Baladna produces its offerings within its own farms & plants in Qatar and serves the Qatari market without exposure to long supply & distribution channels. Further, as protecting the health of its cow herd is crucial for its business sustainability, we believe BLDN is significantly better prepared to deal with Coronavirus-related complications vs. most other listed companies.
- Ample capacity to sustain future growth:** With QR2.7bn of capex spent over the last three years, the company has built its state-of-the-art plant in Qatar. With Plant 3 operational since 2019, Baladna now has a processing capacity of 700k-900k liters of beverages per day and currently utilizes merely 45% to 55% of its overall capacity.
- Exports & overseas expansion opportunities:** Exports accounted for a mere 0.53% of Baladna’s revenue in 2019. On the other hand, expanding into new markets is a major component of Baladna’s growth strategy. Thus, its anticipated herd expansion and long-life product range should support the company’s growth objectives. Apart from dairy and non-dairy products, Baladna is considering exporting its excess packaging material.
- New products to boost 2020-2022 revenue & bottom-line:** The company plans to increase the number of SKUs from c.167 at the end of 2019 to c.261 by the end of 2020, including a variety of juices and cheeses. The company has already launched 24 SKUs during 1Q2020. Accordingly, we expect Baladna’s revenue to rise by 95.2% in 2020 and further by 16.8% in 2021. Moreover, BLDN’s net income is estimated to grow by 207.5% in 2020 (despite a QR105mn scheduled fall in government compensation) and 12.0% in 2021.

Catalysts

- 1) New Products 2) Exports opportunities 3) the Malaysia Project.

Recommendation, Valuation and Risks

- We rate BLDN as Outperform and our 12-month target price of QR1.569 implies a 30.7% upside potential.** BLDN’s 2020e/2021e P/E multiples imply 33%/29% discounts to the international peer group, whereas its EV/EBITDA multiples are at 13.7%/14.3% discounts, respectively. Moreover, BLDN’s 2020 and 2021e dividend yields of 4.4% and 6.3%, respectively, are notably above the international peer group average of 2.1% for 2020e and 2.3% for 2021e as well as the Qatari stocks’ averages of 4.2% and 4.5%, respectively.

Risks: 1) Coronavirus disruptions 2) BFI’s non-compliance with conditions necessary to receive support from the State of Qatar 3) Unexpected decline in BFI’s herd size due to disease outbreak.

Key Financial Data and Estimates

	2019	2020e	2021e	2022e
EPS (QR)	0.032	0.098	0.110	0.116
P/E (x) (*)	37.6	12.2	10.9	10.4
EV/EBITDA (x) (*)	15.9	8.7	7.9	7.5
DPS (QR)	0.02	0.05	0.08	0.08
DY (%)	1.8%	4.4%	6.3%	6.3%

(*) For 2020, market multiples are calculated for the 12 months ending as of December 31, 2020.

Source: Company data, QNBFS Research estimates; Note: All data based on current number of shares

Key Data

Bloomberg Ticker	BLDN QD
ADR/GDR Ticker	N/A
Reuters Ticker	BLDN.QA
ISIN	QA000T98R9J4
Sector	Consumer
52wk High/52wk Low (QR)	1.269 / 0.899
3-m Avg. Volume (000)	N/A
Mkt. Cap. (\$ bn/QR bn)	0.6/2.3
EV (\$ bn/QR bn)	0.9/3.3
FO Limit* (%)	49.0
Current FO* (%)	N/A
Shares Outstanding (mn)	1,901.0
1-Year Total Return (%)	N/A
Fiscal Year End	December 31

Source: Bloomberg (as of May 21, 2020), *Qatar Exchange (as of May 21, 2020); Note: FO is foreign ownership

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Valuation

We value BLDN shares at QR1.569 with a 30.7% 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 company and the latter provides a better comparable universe relative to local peers. On top of its lucrative DCF upside, BLDN shares currently trade at a significant discount to international peers. On the other hand, the company trades at lower discounts vs. the Qatar Stock Exchange averages in terms of its 2020e P/E and dividend yield.

Valuation Summary

Method	Weight in Overall Valuation	BLDN's Upside/Downside Potential
DCF	35.0%	43.5%
International Comparison	35.0%	
P/E, 2020e	8.8%	48.5%
EV/EBITDA, 2020e	8.8%	15.9%
P/E, 2021e	8.8%	41.6%
EV/EBITDA, 2021e	8.8%	16.7%
Local Comparison	30.0%	
DSM All Share Index Dividend Yield 2020e @ 4.2%	15.0%	4.4%
DSM All Share Index P/E, 2020e @15.1x	15.0%	27.6%
Weighted Average Upside Potential for BLDN Shares	100.0%	30.7%

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

Since the IPO, BLDN shares have outperformed the QE Index, which is attributable to: 1) Baladna's defensive business characteristics, which significantly reduces Coronavirus-related disruption risks, 2) Strong 1Q2020 results, 3) Announcement of interim dividends in April and 4) MSCI EM Small Cap Index inclusion in May. Since its IPO in Dec'19, BLDN shares have risen by 18.9%, whereas the QE Index has declined by 13.7%.

International Peers vs. Baladna

Company	Country	Mcap Beta		P/E		EV/EBITDA		EBITDA Margin		Dividend Yield		ROE%	
		\$mn	5yr adj.	2020e	2021e	2020e	2021e	2020e	2021e	2020e	2021e	2020e	2021e
ALMARAI CO	KSA	13,125	0.93	23.8	22.6	14.0	13.8	29.7%	28.8%	1.9%	2.0%	13.2%	13.5%
INNER MONGOLIA YILI INDUS-A	China	24,542	0.85	28.2	21.8	18.5	14.4	9.4%	10.7%	2.5%	3.0%	26.0%	27.6%
BRIGHT DAIRY & FOOD CO LTD-A	China	2,443	1.04	32.3	27.3	9.4	8.5	9.0%	9.2%	1.0%	1.2%	10.1%	10.9%
ULTRAJAYA MILK IND & TRADING	Indonesia	1,177	0.62	15.3	13.2	20.1	17.9	21.5%	21.4%	0.6%	1.5%	17.7%	17.7%
CHINA MENGNIU DAIRY CO	China	14,727	0.92	29.1	20.8	17.4	13.3	8.1%	9.2%	0.8%	1.1%	14.5%	15.2%
EMMI AG-REG	Switzerland	4,733	0.65	23.9	22.0	12.7	12.3	10.1%	10.2%	1.5%	1.7%	11.8%	9.9%
MEGMILK SNOW BRAND CO LTD	Japan	1,734	0.76	15.2	12.9	7.2	6.6	5.5%	5.9%	1.5%	1.5%	7.2%	n.a.
BINGGRAE CO LTD	Korea	539	0.75	16.7	14.9	5.1	5.0	8.5%	8.4%	2.1%	2.2%	7.3%	7.7%
AUSNUTRIA DAIRY CORP LTD	China	3,297	0.85	19.1	15.1	12.8	10.3	20.9%	21.1%	1.8%	2.4%	27.5%	27.2%
CHINA MODERN DAIRY HOLDINGS	China	777	1.00	12.3	9.2	5.4	4.6	36.4%	39.6%	0.0%	0.0%	10.9%	12.1%
TAT GIDA SANAYI AS	Turkey	167	0.99	10.4	8.6	8.6	7.6	10.9%	11.5%	2.9%	3.6%	15.7%	16.1%
FONTERRA SHAREHOLDERS FUND	New Zealand	3,550	0.44	15.0	11.2	8.6	8.4	6.7%	6.7%	3.0%	4.5%	8.1%	8.6%
SAVENCIA SA	Philippines	816	0.50	7.1	6.4	4.2	3.9	6.9%	7.0%	2.1%	2.7%	7.6%	7.2%
DUTCH LADY MILK INDS BHD	Malaysia	677	0.56	27.3	26.6	n.a.	n.a.	n.a.	n.a.	2.4%	2.5%	n.a.	n.a.
MORINAGA MILK INDUSTRY CO	Japan	2,057	0.73	11.1	13.7	7.5	7.0	7.1%	7.6%	1.4%	1.5%	8.8%	8.5%
SAPUTO INC	Canada	10,148	0.68	20.0	19.4	12.1	11.4	10.3%	10.7%	2.0%	2.1%	10.4%	11.8%
FRASER & NEAVE HOLDINGS BHD	Malaysia	2,701	0.57	28.3	26.5	19.1	17.8	14.5%	15.0%	2.0%	2.1%	15.4%	15.4%
VIETNAM DAIRY PRODUCTS JSC	Vietnam	8,528	0.79	20.0	18.6	12.7	11.7	24.5%	24.6%	4.3%	4.5%	39.7%	36.5%
Peer Group Av.			0.71	18.2	15.5	10.1	9.2	12.7%	13.1%	2.1%	2.3%	13.7%	14.4%
BALADNA	Qatar	626	0.64	12.2	10.9	8.7	7.9	43.1%	40.1%	4.4%	6.3%	8.5%	9.2%

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

The company's business structure is quite defensive in terms of risks and complications arising from COVID-19, given BLDN mainly caters to the local market by producing dairy products using its Qatar-based farms & plants. Moreover, as protecting the health of its cow herd is always a major pillar of its business sustainability, we believe BLDN is significantly more prepared to deal with Coronavirus complications vs. most other listed companies. Since the beginning of the Coronavirus malaise, Baladna has barely had any interruptions in supply of dairy or juice products to the local market. **Furthermore, in Apr'20, Baladna announced strong results and interim dividends of QR0.021/share, followed by its MSCI Emerging Markets Small Cap Index inclusion in May'20. These recent developments also supported BLDN's stock performance.**

BLDN trades at lower 2020e/2021e P/Es vs. its international peers, which is not justified given the company's growth potential. BLDN trades at 2020e and 2021e P/E multiples of 12.2x and 10.9x, implying 33% and 29% discounts to its international peers, respectively. BLDN is a relatively new entrant to the dairy business vs. its peers, which fuels our expectations for superior growth near-term with its SKUs expected to rise from 167 at the end of 2019 to 261 in 2020. Furthermore, the FIFA 2022 World Cup in Qatar is likely to be a major driver for BLDN as Qatar is expected to welcome 1.7mn visitors during the event (accounting for ~63% of its population) according to the Qatar Civil Aviation Authority. This event will take place during November-December 2022 with visitors anticipated to stay approximately a month in Qatar for the event.

BLDN's 2020e & 2021e EV/EBITDA multiples are also below its international peers, which again is not justified given BLDN's higher EBITDA margins. BLDN trades at 2020e & 2021e EV/EBITDA multiples of 8.7x and 7.9x, implying 13.7% and 14.3% discounts to international peers, respectively. These lower multiples are not justified considering our expected EBITDA margins for BLDN (43.1% for 2020e and 40.1% for 2021e vs. international peers' 12.7% and 13.1%). Assuming we exclude the government support, we calculate BLDN's 2020/2021 EBITDA margins at 27.5%/28.6%, still double than that of its international peers.

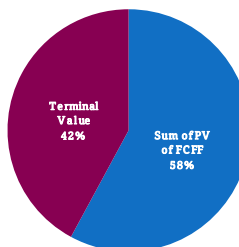
DCF Assumptions:

- **We have added 2pps to BLDN's ERP due to the company's lack of capital market history and 2pps considering unforeseen Coronavirus-related risks.** While calculating BLDN's Cost of Equity, we have considered a risk free rate of 0.66% (US 10-year government bond yield plus Qatar's 10-year CDS spread). We have also added 2pps to BLDN's equity risk premium (ERP) for 1x beta due to its limited equity market history as its shares have been trading on the QE since December 11, 2019 and another 2pps due to unforeseen Coronavirus disruption risks. This gets us to 14.4% as ERP for 1x beta. As a result, we have calculated the cost of equity as 12.2% for BLDN for a beta of 0.71. As expressed below, its lack of sufficient trading history could also result in the risk of a higher-than-expected beta for BLDN shares, which could adversely impact our target valuation.
- **To be on the safe side, we used a higher beta in our DCF calculation vs. BLDN's current beta.** BLDN's beta since its IPO has been 0.64, which is lower than the international peer group data of 0.71. However, due to insufficient trading days to reach a healthy beta calculation, we have used the international peer group average beta for BLDN (0.71) rather than 0.64 in our DCF calculation. **Consequently, if BLDN's beta is maintained at its current level, its target share price increases to QR1.656 while the shares' overall upside potential could increase to 38.0%**

DCF Summary

WACC calculation	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Cost of equity	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%
RF (US 10 yr + Qatar 10yr CDS)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
ERP	10.23%	10.23%	10.23%	10.23%	10.23%	10.23%	10.23%	10.23%	10.23%	10.23%
ERP for 1x Beta	14.37%	14.37%	14.37%	14.37%	14.37%	14.37%	14.37%	14.37%	14.37%	14.37%
Beta	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71
WACC	9.6%	10.0%	10.4%	11.0%	11.9%	13.0%	12.2%	12.2%	12.2%	12.2%
DCF-Cash Flow to Firm (QR)	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
EBIT (1-tax rate)	234,647,184	254,753,288	264,063,000	326,645,300	344,063,672	333,013,593	346,763,673	353,784,615	319,637,134	335,750,823
EBIT	240,663,778	261,285,424	270,833,846	335,020,820	352,885,818	341,552,403	355,655,049	362,856,015	327,832,958	344,359,819
Tax rate	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Depreciation	151,653,000	165,040,000	167,540,000	182,480,910	184,329,663	207,612,937	208,259,922	213,466,420	218,803,080	224,273,157
Capital Expenditure	45,000,000	21,000,000	22,050,000	43,152,500	29,310,125	25,525,631	26,801,913	48,142,008	29,549,109	36,026,564
% of Enterprise Value	1.0%	0.5%	0.5%	1.0%	0.7%	0.6%	0.6%	1.1%	0.7%	0.8%
Change in WC	211,516,978	56,159,136	20,984,281	81,870,555	35,221,356	23,184,331	28,840,314	41,490,906	2,663,008	43,368,615
Free cash flow to the firm (FCFF)	129,783,206	342,634,152	388,568,719	384,103,155	463,861,854	491,916,568	499,381,368	477,618,120	506,228,097	480,628,801
PV of FFCF	129,783,206	311,614,655	319,975,432	284,828,706	307,463,028	288,624,414	261,085,874	222,505,762	210,143,586	177,782,542
Sum of PV of FCF	2,513,807,205									
Terminal Value	1,828,051,519									
Terminal FCF	177,782,542									
Terminal Growth Rate	2.5%									
Terminal WACC	12.2%									
Enterprise value	4,341,858,724									
+Cash and cash equivalents	61,767,054									
-Debt - long term and short term	1,131,204,114									
-Minority Interest	0									
Fair Value of Equity	3,272,421,664									
Shares o/s (mn)	1,901,000,000									
12M target price per share	1.72									
12 Month Upside Potential	43.5%									

DCF Enterprise value breakdown



DCF SENSITIVITY

TARGET SHARE PRICE SENSITIVITY TO TERMINAL GROWTH RATE AND DISCOUNT RATE

		Terminal Growth Rate				
		1.5%	2.0%	2.5%	3.0%	3.5%
Terminal	10.2%	1.83	1.90	1.97	2.05	2.15
	11.2%	1.72	1.77	1.83	1.90	1.97
	12.2%	1.63	1.67	1.72	1.77	1.83
	13.2%	1.56	1.59	1.63	1.67	1.72
	14.2%	1.49	1.52	1.56	1.59	1.63

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

		Terminal Growth Rate				
		1.5%	2.0%	2.5%	3.0%	3.5%
Terminal	11.2%	52.6%	58.1%	64.2%	71.2%	79.2%
	11.7%	43.5%	47.8%	52.6%	58.1%	64.2%
	12.2%	36.0%	39.5%	43.5%	47.8%	52.6%
	12.7%	29.8%	32.7%	36.0%	39.5%	43.5%
	13.2%	24.6%	27.1%	29.8%	32.7%	36.0%

Source: QNB FS Research

Investment Positives

- **Ample capacity to sustain future growth.** With QR2.7bn of capex incurred over the past three years, the company has managed to build its current capacity in Qatar. In early 2019, BFI's newly built facility (Plant 3, which processes raw milk from Baladna's herd and converts it into dairy products) became operational. Plant 3 has a maximum daily capacity of 500k-600k liters/day, which doubled the capacity of BLDN's then-existing facilities (Plant 1 & Plant 2 enjoy a combined capacity of 200k-300k liters/day). Recently, a new production line was shifted from Plant 2 to Plant 3, which increased the Plant 3 capacity by approximately 150k liters/day. Furthermore, a new UHT line is expected to be added in Plant 3, which will increase its capacity by nearly 170k liters/day. BFI can also utilize Plant 3 to produce juice products. With Plant 3 up & running, BFI currently has a maximum beverage processing capacity of 700k-900k liters/day, which is enough to cover the entire dairy products demand of Qatar. **Currently, Baladna utilizes 45% to 55% of its overall capacity;** therefore, we expect Baladna's capex requirement to be relatively lower over the next few years. Meanwhile, BFI's infrastructure has the flexibility of processing multiple products (fresh milk, juice and UHT long-life milk) at the same time, which creates an edge for Baladna in responding to the rapid changes in demand dynamics.
- **Number of SKUs to increase significantly by end of 2020.** The company plans to increase the number of SKUs from c.191 as of March 2020 to c.261 by end of 2020, which should contribute positively to Baladna's top-line. It is noteworthy that 24 SKUs have already been added during 1Q2020. At the end of 2019, Baladna entered into the long-life juice products and it continues to expand its cheese range in particular. Baladna only has an 11.9% local market share in cheese, which increases to 36% in the natural cheese segment. BLDN also has a relatively lower market share in juice (13.5%) as the company has recently entered that segment as well. Baladna sees significant growth opportunities in long-life juice, creams, processed cheese, flavored yogurt, and ayran products. It is noteworthy that the Qatari cheese and juice markets have higher annual growth rates of 4.1% and 11.9%, respectively, vs. the core fresh dairy sector's 2.4%. Baladna has also launched a new brand called Awafi, which is more of a value brand targeting a different segment of consumers from the Baladna brand.
- **BFI targets expanding its herd to 24k (+30%) by end of 2020.** After Baladna imported 8,000 cows in 2018, its herd reached 20,846 cows as of Mar'20, approximately 10k of which are currently being milked. Currently, the cows onsite give birth to approximately 30-35 baby calves per day, which should result in 11k-13k new cows per annum (without taking deaths into account), equaling 50-60% of the existing herd. By the end of 2020, the total herd is expected to reach 24k cows, with the contribution of the natural herd growth cycle. On average, each cow will produce milk for 3-4 years before being replaced with a younger and more productive cow. In order to speed up its herd growth, Baladna is also considering importing 2.2k cows from the US by June'20, of which 807 have reached the farm in May 2020.
- **Productivity per cow has surpassed the US average of 33Lt/day, reaching 37.2Lt in 1Q2020.** The metric improved by approximately 12% in 2019, with the average milking cow producing approximately 32.0 liters/day in Dec'19 vs. approximately 28.5 liters/day in Dec'18. BFI intends to continue improving this metric by focusing on animal health and comfort.
- **Beef and compost sales should support bottom-line growth.** BFI farms produce typical by-products of the dairy industry, namely beef and compost. The milking cows in the herd give birth to calves (males) or heifers (females) after a nine-month pregnancy. Heifers are kept as replacement cows to produce milk for BFI. On the other hand, male calves born on the farm are reared for approximately six months and then slaughtered onsite and sold to third parties as beef. Aside from male calves, other cows that can no longer produce milk are also slaughtered onsite and sold to third parties.
- **Government support of a total of QR1.27bn over 10 years (8 years remaining) enhances BLDN's bottom-line and valuation.** In order to sustain this support, Baladna has to fulfill certain criteria such as utilizing its IPO proceeds to reduce its debt as well as meeting certain periodic volume targets.
- **In 1H2019, BFI began exporting to Oman, Afghanistan and Yemen as its first external markets.** This is a part of BFI's long-term strategy of extending its footprint beyond Qatar in a range of long-life products (both dairy & non-dairy). In 1H2019, Baladna Oman, a limited liability company that is 99% owned by BFI and 1% by Baladna Foodstuff Trading (a fully-owned subsidiary of BFI), was set up to execute distribution services with the aim of supporting BFI's marketing efforts in Oman.
- **Government protection of Qatari dairy industry and producers.** The Government of Qatar is implementing certain measures intended for public safety, which could also provide some edge to local dairy producers vs. imports. As an example, the Government of Qatar prohibited the import of powder-

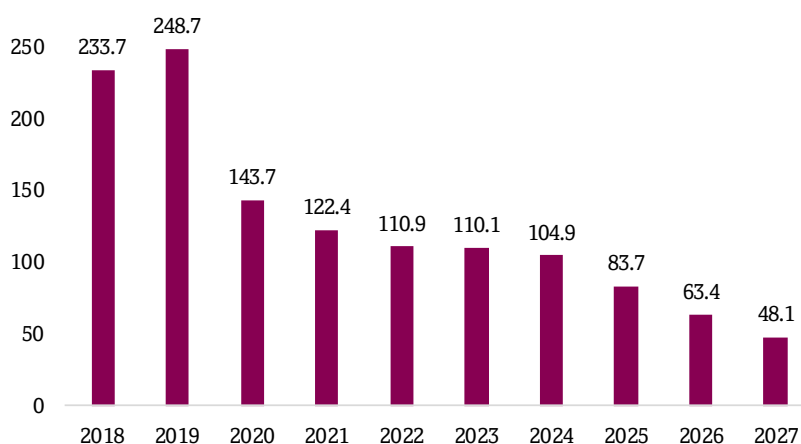
based UHT milk in Mar'19. Furthermore, imported UHT milk's validity cannot exceed 3 months and must have at least 80% of its validity period remaining at the time of entry into Qatar.

- **Baladna's founders have a two-year lock-up period.** Founders will not be able to sell/reduce their remaining 25% stake for two years after the IPO. This aligns the interests of BLDN's founding shareholder with the rest of its shareholders.
- **Favorable demographics:** Compared to the rest of the region, Qatar had a higher per capita drinkable dairy consumption of approximately 50.3 liters per annum in 2017. Having said that, the average-per-capita-milk-consumption in the Western countries is higher at approximately 75 liters per annum, indicating a potential opportunity for milk consumption.
- **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 had 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).
- **The FIFA World Cup Qatar 2022 is likely to be a major driver for BLDN.** Qatar is expected to welcome 1.7mn visitors during this event (approximately accounting for 63% of its population) according to the Qatar Civil Aviation Authority. This event will take place between November to December 2022, with visitors anticipated to stay approximately a month in Qatar.
- **BLDN has made a strong start to 2020, strengthening our expectations for 95.2%/207.5% revenue/earnings growth in 2020 (adjusted for the extra one month in FY2020).** Following QR466.2mn in revenue and QR60.7mn in net income in 2019, the company announced QR236.8mn in net revenue and QR39.7mn in net profit for the 4-month period through Dec 2, 2019 – March 31, 2020, which corresponds to 26.0% and 21.3% of our 2020 forecasts, respectively. Even when we exclude the impact of the extra month in Dec 2, 2019 - March 31, 2020, we estimate that the company has reached 19.5% of our 2020 revenue and 16.0% of our net income estimates. Considering its already launched and upcoming offerings, we believe BLDN's revenue and earnings performance is likely to speed up in the remaining part of the year. **For 2021, we expect the company to record growth rates of 16.8% in revenue and 12.0% in earnings.**

Investment Challenges

- **Government support to end by 2027.** According to the Support Agreement signed between the Government of Qatar and BFI, BFI is entitled to receive an aggregate amount of up to QR1.27bn over a 10-year period. As mentioned earlier, this support has specific conditions such as IPO proceeds should be used to reduce debt as well as obliging Baladna to reach certain periodic volume targets (which are realizable by BFI without difficulty). The individual payments (which are to be received in the coming years) are as follows:

Baladna's State Compensation (In QRmn)



Source: IPO Prospectus

- **Government support (QR248.7mn in 2019 to decline to QR122.4mn by 2021) is still likely to account a hefty 28.7% of EBITDA by 2021.** Therefore, we think the company's net earnings will continue to be moderately lifted by the government support over the next few years. Given the finite nature of this support (different from Widam's case, where there is no set deadline for the support to end), the investment community will closely follow Baladna's long-term standalone profitability.
- **The company anticipates revenue growth to slow down to single digits by 2022.** Baladna has already penetrated deeply into the Qatari dairy market with its +85.6% market share in fresh milk, 74.8% in UHT milk, 40.0% in fresh laban and 32.6% in yogurt. The Qatari dairy market is estimated to grow at a pace of 2.8% p.a. (in-line with its 2014-2018 CAGR); therefore, it could be difficult for Baladna to sustain its prevailing high growth rates in the local market in the coming years without enriching its product range and geographic coverage. **It is noteworthy that these growth expectations do not include the possible realization of the below-mentioned Malaysia project.**

Catalysts

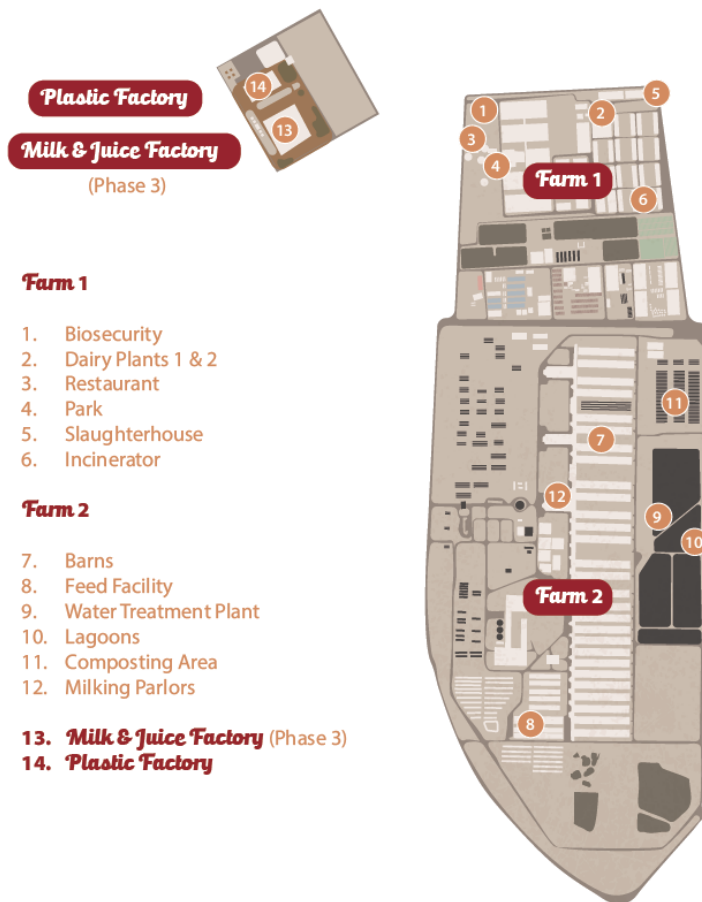
- **Export opportunities:** Baladna targets Kuwait, Jordan, Iraq, Libya, Asia and Southeast Asia as potential export markets. While its priority remains meeting the local demand so far, Baladna has started to export its products recently to Yemen, Afghanistan and Oman in April'19. Exports accounted for merely 0.53% of Baladna's revenue in 2019. On the other hand, expanding into new markets is a major component of Baladna's growth strategy. Hence, its anticipated herd expansion and long-life product range should support the company to reach its goal. Apart from dairy and non-dairy products, Baladna is also considering exporting its excess packaging material and is in contact with some potential customers in Kuwait.
- **Baladna is collaborating with the Federal Land Consolidation and Rehabilitation Authority of Malaysia (FELCRA) to implement the "Baladna model" in Malaysia, in an attempt to increase Malaysia's self-sufficiency in dairy products.** Malaysia currently has less than 20% self-sufficiency in dairy products and aims to enhance this ratio. Together with FELCRA, Baladna is considering establishing a state-supported dairy production business in Malaysia targeting to double Malaysia's annual fresh milk production by producing 50-55mn liters of fresh milk per annum by 2021. Baladna stated it has recently signed a Memorandum of Understanding (MoU) with a Malaysian partner and the Malaysian government has sent a letter to the Qatari government requesting to conduct a market study aiming to establish a joint project in Malaysia. **It is noteworthy that we are yet to incorporate Malaysia's potential prospects into our forecasts and valuation.**

Company Overview

- **Baladna Q.P.S.C. is a holding company that owns a 100% stake in Baladna Food Industries (BFI), Qatar's leading dairy producer.** BFI's founding partners, who placed their 100% stake in BFI into Baladna as capital-in-kind, before offering Baladna's shares to the public, recently established Baladna Company. In return, the founders received 475,250,000 shares representing 25% of Baladna Q.P.S.C's share capital.
- **BFI owns and operates facilities in Qatar that are producing fresh cow's milk and other dairy products for sale to the Qatari market under the 'Baladna' brand, in addition to other products (compost, beef, plastic food packaging, etc.).** Established in 2014, BFI initially had been producing dairy products from sheep and goats. However, in reaction to the mid-2017 blockade, BFI heavily invested in cow milk-based dairy. With a QR2.7bn capex program, BFI has expanded its operations significantly since 2017 and considerably grown its milking herd by importing cows, obtaining more farmland and establishing facilities in order to produce dairy products from fresh milk. The old sheep- and goat-based business was discontinued indefinitely.
- **The IPO has resulted in QR1.44bn cash inflows, which was utilized to reduce BLDN's debt.** Baladna Q.P.S.C offered 1,425,750,000 new shares on the Qatar Stock Exchange at QR1.01/share (including offering and listing fee of QR 0.01 per share), representing 75% of the share capital of the company. Out of that amount, 437,230,000 shares, or 23% of the entire share capital of the company, were purchased by the following Strategic Investors:
 - General Retirement and Social Insurance Authority (GRSIA): 190,100,000 shares representing a 10% stake in Baladna
 - Hassad Food Company (Private): 95,050,000 shares (5% stake)

- Al Meera Consumer Goods: 76,040,000 shares (4%)
- Qatar Ports Management Company (Mwani Qatar): 38,020,000 shares (2%)
- Widam Food Company: 38,020,000 shares (2%)
- **Individual and Corporate Investors were allocated a total of 988,520,000 shares, equivalent to 52% of the issued share capital of the company (including one special share for the Government of Qatar represented by the Ministry of Commerce and Industry). FOL limit is set at 49%.**
- **On the back of QR2.7bn in capex over the past three years, Baladna has managed to build its current capacity in Qatar.** Baladna's current facilities include:
 - Two farms, with barns that house cows, and milking area
 - Two dairy factories and one shared dairy & juice factory, using state-of-the-art technologies
 - A feed mixing facility, located on the farm to store animal feed with 6-months of storage capacity
 - A water treatment plant, to supply water to the farm
 - A compost facility, to produce natural fertilizer
 - A slaughterhouse, where calves and non-milking cows are taken for beef production
 - A packaging plant, to produce plastic bottles and caps for Baladna products and external sales
 - Its own distribution network with over 100 routes and 140 trucks to deliver fresh dairy products daily

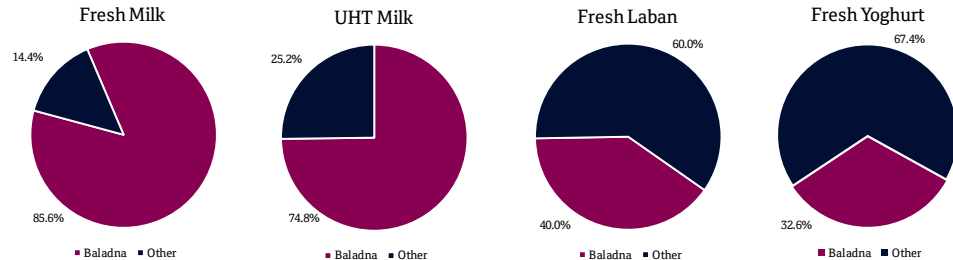
Baladna's Plant



Source: IPO Prospectus

- **BFI currently only produces dairy products from cows; it does not produce almond, soy or other types of non-dairy 'milk' and has no plans to enter these markets.** BFI's dairy products include fresh milk, yogurt, laban, ayran, ultra-high temperature long-life milk, cheese, labneh, fresh cream, desserts and ghee.
- **Apart from dairy products, Baladna also produces juice.** In April'19, BFI started selling juices and as of May'20, BFI produces chilled juice in 15 flavors, namely apple, orange, pineapple, mango, tropical mix, mixed fruit, mixed pomegranate, 100% filtered pomegranate, mixed berry, lemon ginger, lemon mint, kiwi lime, peach, green apple and guava. BFI sells these flavors in four sizes: 1.0Lt/1.5Lt family-size bottles and single-serve 200ml/180ml packs. BFI's production capacity is 160k liters/day for 1.0-liter bottle shared among these flavors.
- **As of March 2020, BLDN's herd size was approximately 20,846 cows, 10k of which are currently being milked.** The herd is housed in two farms spread over a total area of more than 2mn square meters. Throughout 2018, an additional 8,000 cows were imported. While future expansion of the herd will be supported by its organic growth, Baladna is also considering importing 2,200 cows from the US by June'20 in order to speed up its herd growth. 807 of these cows have already reached the farm in May 2020.
- **Self-sufficiency is a key strength.** BFI benefits from its own supply of three essential components in the production cycle: 1) A water treatment facility has been established to meet the internal consumption needs of the dairy farms' operations. 2) A storage facility, with capacity to store animal feed requirements for six months, has been installed. This will allow temporary hedging against price volatility in imported feed. 3) Plastic packaging requirements for the majority of dairy and juice products are met through a more recently established packaging factory that became fully operational in the second half of 2019.

Baladna's Market Share in the Qatari Dairy Market (Nielsen data for February 2020)



Source: Nielsen data

- **In April'19, BFI exported its products for the first time, selling UHT long-life milk to Oman, Afghanistan and later to Yemen.** Baladna Oman was incorporated in the first half of 2019 to provide on-the-ground distribution services supporting the export of BFI's products into Oman. As of Dec'19, exports made up 0.53% of BFI's sales.

Detailed Financial Statements

Income Statement (Based on BFI's Statements, QR000)

	2017	2018	2019	2020e	2021e	2022e
Revenue	88,506	216,455	466,226	910,191	1,063,094	1,126,880
COGS	96,701	243,315	367,194	511,341	591,225	621,342
Depreciation	15,846	72,335	94,379	142,089	155,172	157,597
Gross Profit	(24,041)	(99,195)	4,654	256,761	316,697	347,941
SG&A	27,631	95,328	139,546	151,466	167,969	178,047
Depreciation and Amortization	3,196	4,065	7,213	9,564	9,868	9,943
Other Operating Income	13,944	237,406	253,935	144,933	122,425	110,883
Government Compensation	-	233,661	248,744	143,715	122,425	110,883
By-Product Sales	815	1,158	1,185	-	-	-
Other Income	13,129	2,587	4,006	1,218	-	-
Operating Income	(40,924)	38,818	111,830	240,664	261,285	270,834
EBITDA	(21,882)	115,218	213,421	392,317	426,325	438,374
EBITDA Margin %	-24.7%	53.2%	45.8%	43.1%	40.1%	38.9%
Other Income	-	-	-	-	-	-
Financial Expenses	1,656	37,544	51,154	54,109	52,329	51,000
Other Expenses	-	-	-	-	-	-
Net Profit before Discontinued Operations	(42,580)	1,274	60,676	186,555	208,956	219,834
Discontinued Operations	-	-	-	-	-	-
Non-Controlling Interests	-	-	-	-	-	-
Net Income	(42,580)	1,274	60,676	186,555	208,956	219,834
Net Profit Margin	-48.1%	0.6%	13.0%	20.5%	19.7%	19.5%
Share Outstanding (mn)			1,901	1,901	1,901	1,901
EPS			0.032	0.098	0.110	0.116
DPS			0.021	0.053	0.076	0.079

(*) For 2020, our estimates are adjusted for the 12 months ending as of December 31, 2020

Note: EPS based on current number of shares

Balance Sheet (QR000)

	2017	2018	2019	2020e	2021e	2022e
Cash & Cash Equivalents	102,446	50,397	19,325	15,000	20,000	20,000
S/T Deposits	-	-	-	-	9,412	9,411
Accounts Receivables & Prepayments	214,834	393,688	413,701	338,666	380,559	403,393
Due from Related Parties	5,996	14,654	14,019	-	-	-
Biological assets / Agricultural produce	6,037	-	-	-	-	-
Inventories	25,077	122,974	200,846	161,790	188,969	200,307
Total Current Assets	354,390	581,713	647,891	515,456	598,940	633,111
Right-of-use Assets	-	-	81,349	64,240	47,700	31,161
Biological Assets	93,422	158,217	164,931	187,992	202,992	227,992
Intangible Assets	125	1,517	2,849	5,997	4,997	3,997
Property, plant & Equipment	1,524,121	2,371,353	2,636,134	2,779,377	2,732,877	2,683,877
Non-Current Assets	1,617,668	2,531,087	2,885,263	3,037,606	2,988,566	2,947,027
Total Assets	1,972,058	3,112,800	3,533,154	3,553,062	3,587,506	3,580,138
Short-Term Debt	43,524	196,521	105,177	127,393	115,255	94,851
Accounts Payables & Accruals	37,587	273,922	163,664	97,398	121,573	132,825
Due to Related Parties	87,425	34,991	11,525	-	-	-
Finance Lease Liability	-	-	15,467	16,520	17,250	18,012
Current Liabilities	168,536	505,434	295,833	241,311	254,078	245,688
Interest Bearing Loans and Borrowings	1,182,933	1,978,546	1,021,328	1,021,328	995,328	943,328
Finance Lease Liability	-	-	66,588	51,819	33,462	15,846
Employees' End-of-service Benefits	1,439	2,805	5,363	8,007	8,808	9,689
Non-Current Liabilities	1,184,372	1,981,351	1,093,279	1,081,154	1,037,598	968,863
Total Liabilities	1,352,908	2,486,785	1,389,112	1,322,465	1,291,676	1,214,551
Total Shareholder's Equity	619,150	626,015	2,144,042	2,230,597	2,295,830	2,365,587
Minority Interest	-	-	-	-	-	-
Liabilities and Share Holders Equity	1,972,058	3,112,800	3,533,154	3,553,062	3,587,506	3,580,138

Source: Company data, QNB FS Research

Cash Flow Statement (QR000)

	2017	2018	2019	2020e	2021e	2022e
Cash Flows from Operations	(206,243)	19,497	(66,148)	372,492	329,900	365,335
Cash Flows from Investing Activities	(1,256,807)	(908,882)	(374,419)	(302,426)	(132,540)	(142,540)
Cash Flows from Financing Activities	1,564,552	837,336	409,495	(74,391)	(182,948)	(222,796)
Change in Cash	101,502	(52,049)	(31,072)	(4,325)	14,412	(1)
Cash Beginning of Period	944	102,446	50,397	19,325	15,000	29,412
Cash End of the Period	102,446	50,397	19,325	15,000	29,412	29,411

Source: Company data, QNB FS Research

Ratio Analysis

Key Metrics

Particulars	2018	2019	2020e (*)	2021e	2022e
Growth Rates					
Revenue	144.6%	115.4%	95.2%	16.8%	6.0%
Gross Profit	312.6%	N/M	N/M	23.3%	9.9%
EBITDA	N/M	85.2%	83.8%	8.7%	2.8%
EBIT	N/M	188.1%	115.2%	8.6%	3.7%
PAT/EPS	N/M	N/M	207.5%	12.0%	5.2%
DPS	N/M	N/M	150.0%	43.7%	4.4%
Operating Ratios					
Gross Margin	-45.8%	1.0%	28.2%	29.8%	30.9%
Gross Margin, Excluding Depreciation & Amortization	-12.4%	21.2%	43.8%	44.4%	44.9%
EBITDA Margin	53.2%	45.8%	43.1%	40.1%	38.9%
EBIT Margin	17.9%	24.0%	26.4%	24.6%	24.0%
Net Margin	0.6%	13.0%	20.5%	19.7%	19.5%
Finance Ratios					
Debt-Equity Ratio	347%	53%	51%	48%	44%
Net Debt -Equity Ratio	339%	52%	51%	48%	43%
Net Debt -to-Capital	N/M	58%	60%	57%	54%
Net Debt -to-EBITDA	18.4	5.2	2.9	2.6	2.3
Interest Coverage	1.0	2.2	4.4	5.0	5.3
Return Ratios					
ROIC	1.7%	3.7%	7.2%	7.7%	8.0%
ROE	0.2%	4.4%	8.5%	9.2%	9.4%
ROA	0.1%	1.8%	5.3%	5.9%	6.1%
Liquidity Ratios					
Current Ratio	1.2	2.2	2.1	2.4	2.6
Quick Ratio	0.9	1.5	1.5	1.6	1.8
Valuation					
EV/Sales	23.5	7.3	3.8	3.2	2.9
EV/EBITDA	44.2	15.9	8.7	7.9	7.5
EV/EBIT	131.2	30.3	14.2	12.9	12.2
P/E	N/M	37.6	12.2	10.9	10.4
P/BV	N/M	1.1	1.0	1.0	1.0
Dividend Yield	N/M	1.8%	4.4%	6.3%	6.6%

(*) For 2020, key metrics are calculated based on our estimates for the 12 months ending as of December 31, 2020.

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

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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