

Baladna (BLDN)

Recommendation	Accumulate	Risk Rating	R-3
Share Price	QR1.505	Target Price	QR1.767
Implied Upside	17.4%		

Volume Headway & "PE-like" Optionality Implies Compelling Upside; Initiate with Accumulate

Flying in 4,000 cows during Qatar's time of greatest need, Baladna was fashioned out of necessity and has become a veritable business case study of "turning threats into opportunities". Baladna successfully filled in the Al Marai-sized gap left in the market at the height of the blockade. Differentiated by its superior product quality, which affords it some pricing power, augmented by a presence at the lower end of the demand curve (Awafi brand), Baladna's revenue grew 27.5% to QR985.6mn in FY2022, driven primarily by volume growth. **Notwithstanding strong competition at home, Baladna's overall market share notched up 5ppts to 51% in 2022, and it now dominates the local dairy market in several primary dairy products, such as fresh (94% market share at end-1Q2023) and UHT milk. However, investors should find it reassuring that Qatar's dairy champion still has more growth levers to pull – in the immediate horizon, Baladna will continue expanding its product breadth (evaporated milk) and depth while leveraging its integrated supply chain to promote and launch them in the market. Focused on products with low market share (e.g. juices and cheeses), Baladna aims to increase its overall market share from 51% to 54% in 2023. In addition, we expect various catch-up product price increases to drive near-term revenue growth, while soft commodity price moderation helps margins. In the medium term, part of Baladna's strategy is to export its dairy model to several countries in a seemingly PE-style "build-operate-exit" model.** Overall, we see Baladna, organically, maintaining solid revenue and earnings growth for the foreseeable future, driven primarily by volume growth. Further, its bottom-line should be bolstered, in the longer term, by its offshore expansion plans as earnings contribution turn positive, coupled with a potential windfall should it find lucrative routes (such as IPOs) to exit these offshore ventures.

Highlights

- We expect strong revenue and bottom-line growth in the short- to medium-term, which slows down as market shares in new products (primarily evaporated milk and juice) approach the 50% mark.** We see revenue growing 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. Effective interest rate last year was 3.8% but we see an average rate of 6.0% and an 81.4% jump in finance cost in FY2023. While debt usually lowers the cost of capital, this benefit has been overshadowed by the impact of debt's quantum on the valuation, on one hand, and by the burden of finance charges on earnings, on the other.
- At the bottom-line, a further boost will come from 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.**

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 initiate coverage with an Accumulate rating and a weighted 12-month TP of QR1.767, implying a 17.4% 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.
- 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

Key Data

Current Market Price	QR1.505
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)	1.850/1.187
3-m Average Vol. (mn)	7.8
Mkt. Cap. (\$ bn/QR bn)	0.8/2.9
EV (\$ bn/QR bn)	1.3/4.7
Shares O/S (mn)	1,901.0
FO Limit* (%)	49.0
FO (Institutional)* (%)	3.0
1-Year Total Return (%)	-14.5
Fiscal Year-End	December 31

Source: Bloomberg (as of July 30, 2023), *Qatar Exchange (as of July 30, 2023); Note: FO is foreign ownership

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Valuation

We value BLDN shares at QR1.767 with a 17.4% upside potential using a combination of DCF, EEM, and international and domestic multiples. We assign the biggest weights to DCF (cash flows to firm) and EEM (EBITDA Exit Multiple) as they capture the medium- to long-term potential of the company and its idiosyncrasies. The EEM and international comparison methodologies utilize international, rather than local peer multiples, in order to capture industry- or sector-specific pricing and valuation signals. While Baladna looks undervalued intrinsically, it seems largely fairly-valued relative to international peers, but its valuation is rich compared with the domestic market. *This discrepancy is largely explained by the above-average growth that we expect from Baladna in the medium term, which is not quite captured by pure relative valuation methodologies – we estimate an average Forward PEG ratio of 0.85x based on our bottom-line growth expectations for Baladna in the short- to medium-term. Furthermore, domestically, the fact that Baladna did not declare a dividend for FY2022 has soured domestic investor sentiment. While we expect it to pay a dividend this year, that will still be lower than what it paid in FY2021 as margin recovery is offset by surging finance costs. We also note that while Baladna's capital return ratios are relatively low, they should gradually improve as plant utilization increases and capex normalizes.*

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.

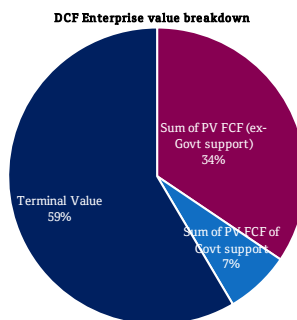
Valuation Summary

Method	Weight in Overall BLDN's Valuation	BLDN's Upside Potential
DCF	50%	23.9%
EEM	20%	53.4%
International Comparison	20%	0.9%
P/E, 2023E	5.0%	-28.4%
EV/EBITDA, 2023E	5.0%	19.9%
P/E, 2024E	5.0%	14.8%
EV/EBITDA, 2024E	5.0%	-2.9%
Local Comparison	10%	-53.6%
DSM All Share Index Dividend Yield 2023E	5.0%	-46.4%
DSM All Share Index P/E, 2023E	5.0%	-60.8%
Weighted Average Upside Potential for BLDN Shares	100.0%	17.4%

Source: QNBFS Research

DCF Model Output: Summary

GROUP	2022a	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
EBIT (1-tax rate)	151,778,605	195,817,171	267,124,532	292,672,444	310,126,543	332,028,248	302,480,837	322,651,700	342,537,847	362,317,670
EBIT	153,688,832	198,281,650	270,486,458	296,355,906	314,029,675	336,207,027	306,287,744	326,712,469	346,848,896	366,877,660
Govt support	110,883,058	110,079,177	104,933,491	83,752,375	63,375,344	48,052,158	0	0	0	0
Tax rate	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
D&A	140,659,461	142,898,791	132,717,850	117,323,153	116,429,263	116,472,962	116,448,162	116,799,943	109,721,764	109,792,673
Capital Expenditure	-352,259,954	-66,428,628	-131,377,187	-52,928,935	-28,694,211	-29,946,856	-27,467,865	-34,886,099	-39,213,312	-39,847,064
Change in WC	14,649,605	-17,904,815	-75,439,541	-63,043,896	-19,477,518	-19,394,662	12,609,708	-38,180,961	-36,800,688	-37,412,812
Free cash flow to the firm (FCFF)	-45,172,283	254,382,521	193,025,655	294,022,766	378,584,077	400,159,712	404,070,842	366,412,583	376,245,612	394,850,466
WACC		9.3%	9.0%	8.9%	9.0%	9.1%	9.2%	9.3%	9.4%	9.6%
Discount Factor		1.05	1.14	1.24	1.35	1.48	1.62	1.79	1.97	2.17
PV of FCFF		245,363,992	169,626,345	237,758,732	280,022,559	270,426,088	248,756,794	205,156,556	191,282,070	181,824,205
PV of FCFF: ex-Govt Support		138,052,875	77,413,284	170,035,166	235,121,735	237,952,661	248,756,794	205,156,556	191,282,070	181,824,205
Sum of PV of FCFF	2,028,217,341									
Sum of PV FCF (ex-Govt support)	1,683,593,342									
Sum of PV FCF of Govt support	344,623,999									
Terminal Value	2,858,239,837									
Terminal FCF	187,278,931									
Terminal Growth Rate	3.0%									
Terminal WACC	9.6%									
Enterprise value	4,886,457,179									
ex-Govt support	4,541,833,179									
+Cash and cash equivalents	62,367,530									
+FVTOCI	218,124,952									
-Debt - long term and short term	1,932,013,172									
-Minority Interest	0									
Fair Value of Equity	3,234,936,489									
ex-Govt support	2,890,312,489									
Shares o/s	1,901,000,000									
12M target price per share	1.864									
ex-Govt support	1.666									
12 Month Upside Potential	23.9%									
ex-Govt support	10.7%									



Source: QNBFS Research

Target Share Price Sensitivity to WACC and Discount Rate

		Terminal Growth Rate				
		2.00%	2.50%	3.0%	3.50%	4.00%
Terminal Discount Rate	7.6%	2.14	2.34	2.59	2.89	3.28
	8.6%	1.85	1.99	2.16	2.36	2.61
	9.6%	1.63	1.74	1.864	2.01	2.18
	10.6%	1.47	1.55	1.65	1.75	1.88
	11.6%	1.34	1.40	1.48	1.56	1.66

		Upside Potential				
		2.0%	2.5%	3.0%	3.5%	4.0%
Terminal Discount Rate	8.6%	42.3%	55.7%	72.0%	92.3%	118.3%
	9.1%	22.8%	32.3%	43.6%	57.1%	73.5%
	9.6%	8.5%	15.6%	23.9%	33.5%	44.8%
	10.1%	-2.5%	3.1%	9.4%	16.6%	24.9%
	10.6%	-11.2%	-6.7%	-1.7%	3.9%	10.3%

Source: QNBFS Research

Relative Valuation Metrics

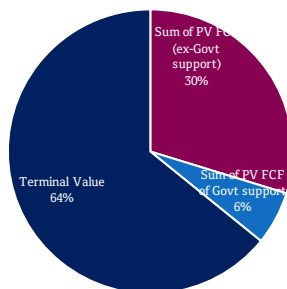
Company	Country	Mcap USDm	Beta 5yr adj.	P/E		EV/EBITDA		P/B		ROE		EBITDA Margin		Dividend	
				2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e
HALWANI BROS CO	SAUDI ARABIA	627	n.a.	475.0	76.4	36.5	26.9	5.36	5.20	1.1%	7.0%	7.7%	9.3%	n.a.	0.75
ALMARAI CO	SAUDI ARABIA	18,927	n.a.	32.8	29.4	16.2	15.1	4.00	3.75	12.3%	13.4%	24.7%	25.1%	1.55	1.67
JUHAYNA FOOD INDUSTRIES	EGYPT	411	0.78	11.8	9.8	7.5	6.3	3.11	2.84	0.27	0.27	12.0%	12.3%	2.99	4.90
ALMUNAJEM FOODS CO	SAUDI ARABIA	1,097	0.99	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
NESTLE COTE D IVOIRE	IVORY COAST	334	1.02	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SAUDIA DAIRY & FOODSTUFF CO	SAUDI ARABIA	3,041	0.59	36.9	25.2	20.4	18.5	6.20	5.56	0.26	0.27	19.3%	19.7%	1.76	2.38
BUA FOODS PLC	NIGERIA	3,173	0.69	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
FAMOUS BRANDS LTD	SOUTH AFRICA	338	1.01	12.8	12.1	n.a.	6.4	n.a.	n.a.	n.a.	n.a.	n.a.	14.3%	n.a.	5.82
TIGER BRANDS LTD	SOUTH AFRICA	1,649	0.66	10.5	9.2	8.0	7.1	1.79	1.68	0.15	0.16	10.3%	10.9%	5.26	5.75
WAFRAH FOR INDUSTRY AND DEVE	SAUDI ARABIA	207	0.95	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
			0.84	96.6	27.0	17.7	13.4	4.09	3.81	16.3%	18.2%	14.8%	15.3%	2.9%	3.5%
			0.87	22.8	18.6	16.2	11.1	4.00	3.75	15.2%	16.2%	12.0%	13.3%	2.4%	3.6%
BALADNA	Qatar	784	0.84	31.8	16.2	13.5	11.4	1.22	1.17	3.8%	7.2%	31.8%	31.1%	2.4%	4.7%

Source: Bloomberg, QNBFS Research

EEM Model Output: Summary

GROUP	2022a	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
EBITDA	292,438,066	338,715,962	399,842,362	409,995,597	426,555,805	448,501,210	418,928,999	439,451,642	452,259,612	472,110,342
PV of EBITDA		324,044,547	351,371,974	331,539,066	315,671,973	303,095,049	257,905,872	246,051,554	229,927,346	217,401,510
Sum of PV of FCF	2,028,217,341									
Sum of PV FCF (ex-Govt support)	1,683,593,342									
Sum of PV FCF of Govt support	344,623,999									
Terminal Value	3,630,244,119									
Terminal EBITDA	223,923,555									
EBITDA Multiple	16.2									
Enterprise value	5,658,461,460									
ex-Govt support	5,313,837,461									
+Cash and cash equivalents	62,367,530									
+FVTOCI	218,124,952									
-Long- and Short-term Debt	1,932,013,172									
-Minority Interest										
Fair Value of Equity	4,006,940,770									
ex-Govt support	3,662,316,771									
Shares outstanding	1,901,000,000									
Fair Value Per Share	2,108									
ex-Govt support	1,927									
12M Target price per share	2,309									
ex-Govt support	2,111									
Upside Potential	53.4%									
ex-Govt support	40.2%									

EEM Enterprise value breakdown



Source: QNBFS Research

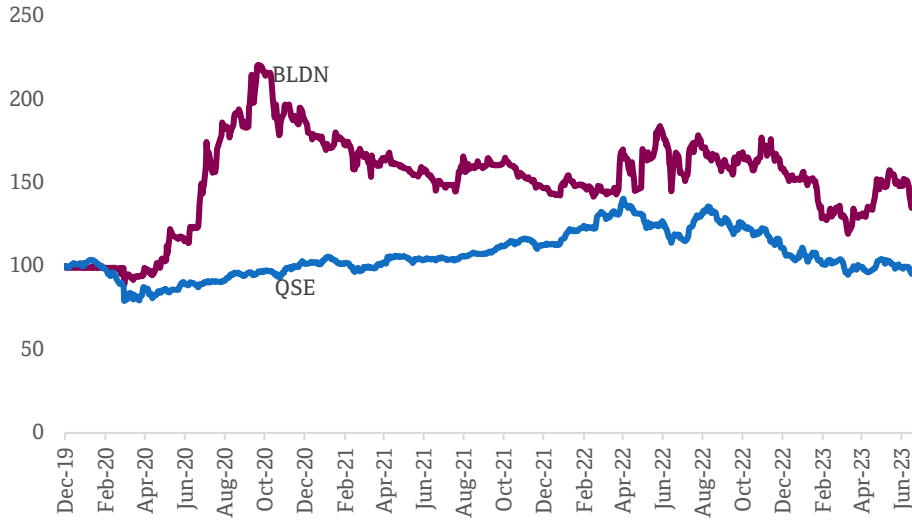
Target Share Price Sensitivity to Exit Multiple and Discount Rate

		Exit Multiple				
		14.2	15.2	16.2	17.2	18.2
Terminal Discount Rate	7.6%	2.336	2.484	2.633	2.781	2.929
	8.6%	2.188	2.326	2.465	2.603	2.741
	9.6%	2.051	2.180	2.309	2.438	2.567
	10.6%	1.924	2.045	2.165	2.286	2.407
	11.6%	1.807	1.920	2.032	2.145	2.258

		Upside Potential				
		14.2	15.2	16.2	17.2	18.2
Terminal Discount Rate	7.6%	55.2%	65.1%	74.9%	84.8%	94.6%
	8.6%	45.4%	54.6%	63.8%	72.9%	82.1%
	9.6%	36.3%	44.9%	53.4%	62.0%	70.6%
	10.6%	27.9%	35.9%	43.9%	51.9%	59.9%
	11.6%	20.1%	27.6%	35.0%	42.5%	50.0%

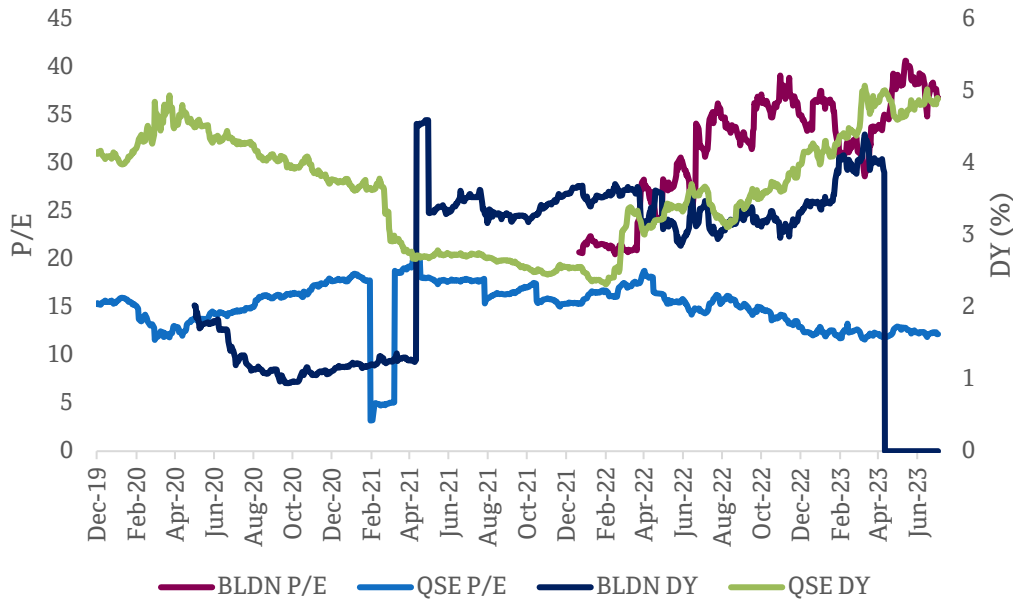
Source: QNBFS Research

Baladna Share Price Performance since Listing vs. QSE (base = 100)



Source: Bloomberg, QNBFS Research

Baladna LTM P/E and DY (%) vs. QSE



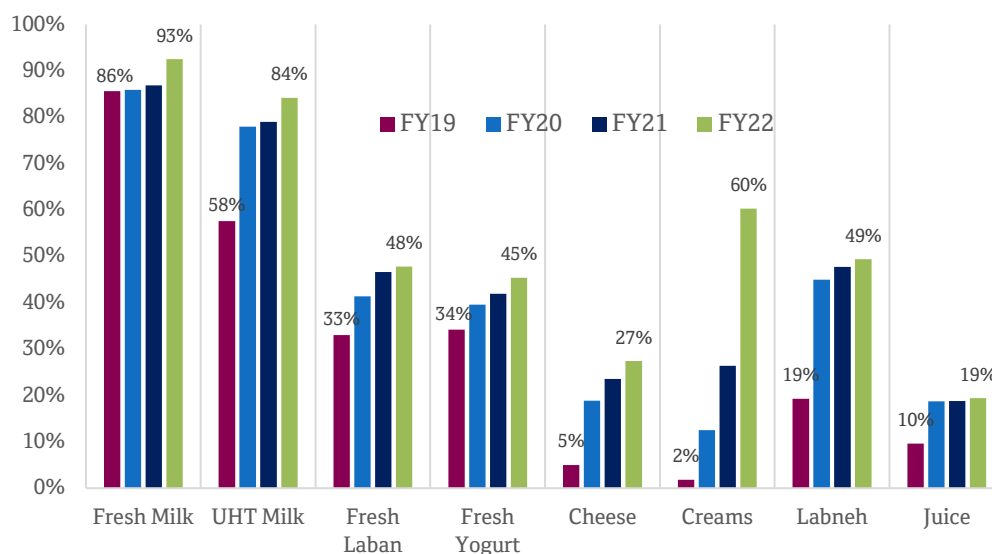
Source: Bloomberg, QNBFS Research

Investment Thesis: Upside

Market Share Gains & Expansion of Product Breadth to Support Growth

- **In the near term, we see value-creation coming from market share gains and new product launches.** Baladna has rapidly expanded its product portfolio since 2017, which also saw regular product rationalization as part of the value-enhancing process. **Launching of the evaporated milk product (Evap) is expected to be one of the major highlights this year, with bulk of sales expected coming from multi-year government and B2B contracts.** Evaporated milk has a decent market size in Qatar of approximately 20 kilo tons (kt), which is currently being largely met by imports. This compares with about 57kt of imported dairy products and 195kt produced locally in 2021.
- **Dominant market shares for a range of products and expected continued market share gains in relatively new products, for e.g., juice and cheese (augmented by the BEL partnership) is expected to continue driving growth into the medium term.** Baladna signed an agreement with “The Bel Group” to start producing The Laughing Cow® jars cheese in 2023.

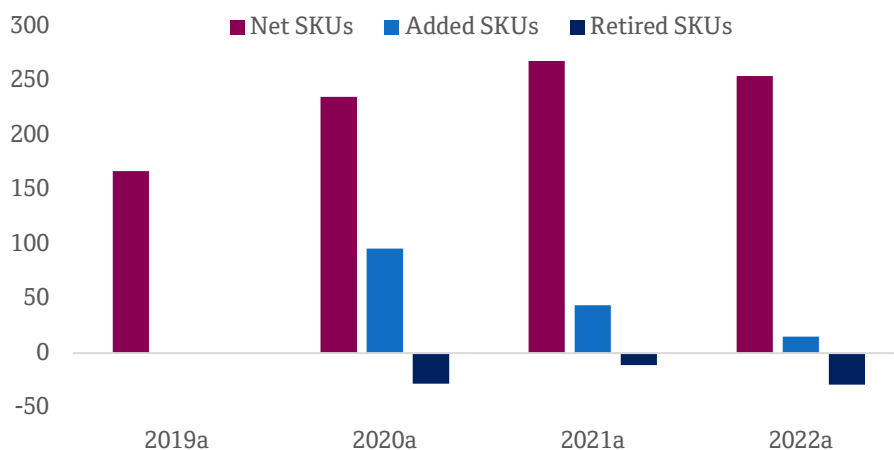
Baladna Product Market Share Evolution



Source: Company data, QNBFS Research

- **Product rationalization/streamlining (new launches vs. discontinuations) is where Baladna’s state-of-the-art manufacturing capabilities and marketing efforts combine to leverage the supply chain,** creating significant value through protecting and/or expanding margins. Management has not shied away from chopping and changing its product profile to maintain the required margin levels and profitability. At end-FY2022, the number of SKUs was 254 up from 167 at end-FY2019.

Baladna Product/SKU Growth and Streamlining



Source: Company data, QNBFS Research

- **Margin expansion also emanates from increased capacity utilization on the back of new product launches and market share gains.** Coupled with the decline in capex requirements, it should boost FCF, reduce debt/interest payments, and filter to shareholder distributions.
- **The backward integration plan of Baladna to grow forage will also be a focus area during the year.** This is to ensure security and certainty of the supply and quality of feed from its own feed farms to meet internal demand. For this purpose, a new company was established during FY2022 in Romania that will own the new investment in agriculture. Potential acquisition opportunities are also under discussion.
- **The recent acquisition of a Qatari detergent processing factory called E-Life (75% stake), as part of its horizontal expansion strategy, will generate additional revenue for the company in 2023,** albeit a small contribution of just over 1% of group revenue. The Qatari detergent market size is estimated at QR1bn, but specific to E-life's market niche, the market size is approximately QR600mn.

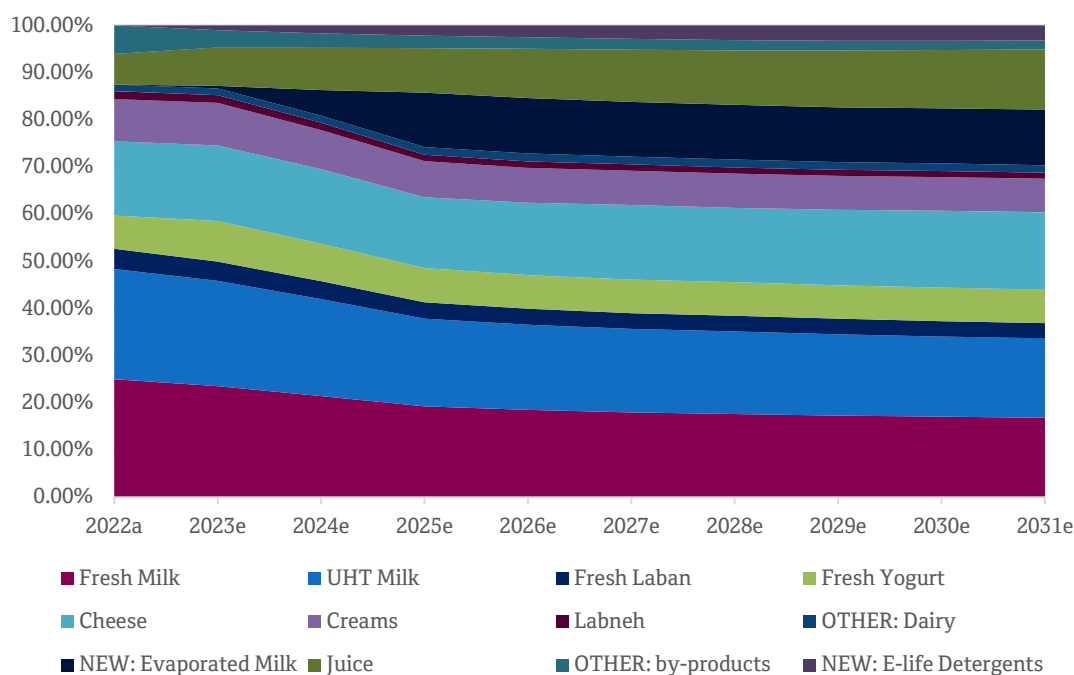
Expected Product Revenue Growth Rates: Heat Map

Product Revenue Growth Rates	2022a	2023e	2024e	2025e	2026e
Group	27.5%	8.7%	21.0%	16.5%	7.7%
Fresh Milk	6.59%	2.18%	10.50%	4.44%	3.42%
UHT Milk	22.64%	4.00%	11.39%	5.51%	4.47%
Fresh Laban	6.88%	3.38%	11.48%	6.28%	5.20%
Fresh Yogurt	22.28%	32.97%	11.53%	6.33%	7.04%
Cheese	26.51%	10.46%	19.29%	11.08%	9.35%
Creams	352.72%	9.55%	11.74%	6.53%	4.68%
Labneh	19.41%	8.68%	11.23%	6.06%	5.00%
OTHER: Dairy	17.61%	11.26%	30.08%	20.90%	17.44%
NEW: Evaporated Milk	n.a	n.m	1066.67%	150.00%	8.57%
Juice	21.17%	36.27%	33.38%	22.30%	19.53%
OTHER: by-products	32.22%	-34.83%	1.74%	0.00%	0.00%
NEW: E-life Detergents	n.a	n.m	100.00%	50.00%	25.00%

Source: Company data, QNBFS Research

- In the short- to medium-term, we expect the bulk of the growth to come from Evap, juice, cheese and the newly acquired E-life Detergents.

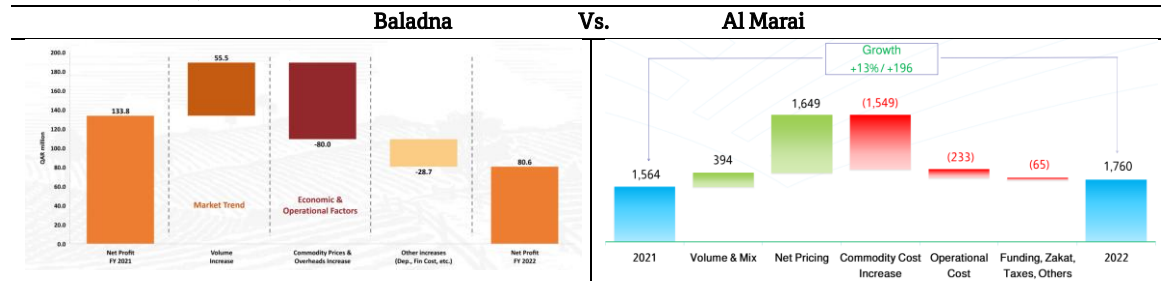
Product Share of Revenue Evolution: Evap and Juice to Drive Growth



Source: Company data, QNBFS Research

- **Catch-up price increases will support near-term top-line growth as we expect the company to levy above-average price increases in the short term.** The group was adversely affected by input commodity cost increases last year, as it was not able to immediately pass on the imported costs to consumers. Since Baladna's prices are controlled, price increases work with a considerable lag as the process of getting approvals from relevant authorities is time consuming.

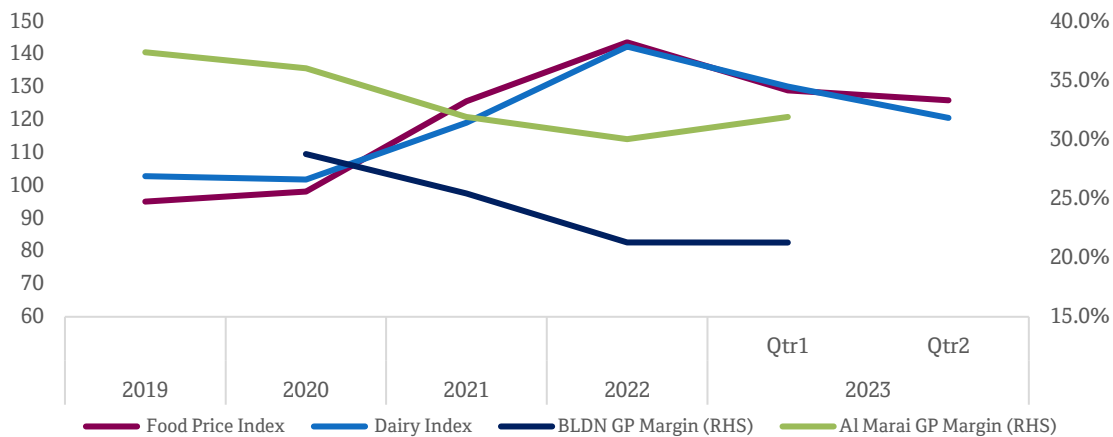
FY2022 Extracts of Net Profit Bridge:



Source: Company data

- As can be seen in the figure above, BLDN's peer Al Marai had considerable margin protection by passing on commodity cost increases in real time. With Baladna unable to do the same, its GP margin for FY2022 fell to 21.3% from 25.4% in FY2021. Comparatively, Al Marai GP margin was 30.0% in FY2022 vs. 31.9% in FY2021. **What is putting Baladna in a more positive light, however, compared with Al Marai, is its superior strong sales volume growth that we expect to continue for the foreseeable future, which consequently underpins our investment thesis.**

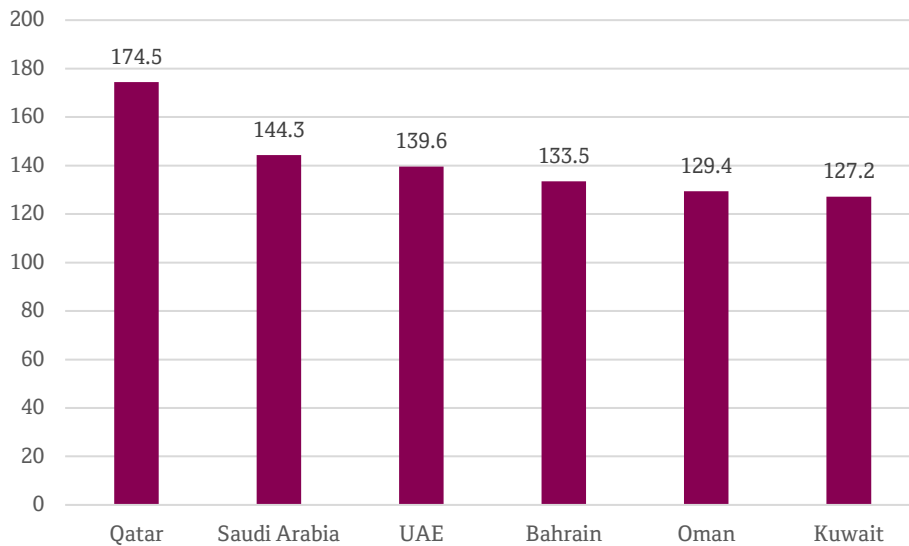
Gross Margins Vs Global Food Index/Inflation



Source: Company data, FAO

- **With the feed costs moderating since reaching multi-year highs last year,** as reflected in the global food indices, it could be another source for Baladna's margins to expand.
- **Ample capacity to sustain future growth.** With QR3.6bn of capex plowed in capacity-building over the past six years, the company has managed to install state-of-the-art plants that are integrated with the supply chain in order to instantly respond to changing demand dynamics. This is coupled with plants' flexibility to process multiple products at the same time. When Plant 3 became operational in 2019, it increased Baladna's beverage processing capacity to roughly 800K ltrs/day – only 50-60% of this capacity is in use at the moment. Furthermore, Baladna built another separate plant (Plant 4) for evaporated milk and sterilized cream products, which started operating this year in 1Q. Together, these plants have significant slack to support Baladna's volume growth for the foreseeable future.
- **Productivity per cow has continued to increase, a trend expected for the foreseeable future. In 2019, the average daily milk production was 31.8lt/cow, rising to 36.7lt/cow by 2022. This is impressive given the harsher climatic conditions in Qatar, and it is a testament to the advanced technology being used by Baladna – hence the global interest in the Baladna model.** Comparatively, according to FAO, milk yields vary widely around the globe due to differences in production systems (e.g. animal nutrition, breeds). In countries such as Bangladesh and Nigeria, the average cattle milk yield is ≤500lt/year. In countries with developing dairy sectors, such as Iran, Peru and Vietnam, the average cattle milk yield is >2,000lt/year. Overall, this translates to a range of between 1.4-5.5lt/day. In the US, daily yields were around 29.1lt/cow in 2022. BLDN intends to continue improving this metric by focusing on animal health and comfort.

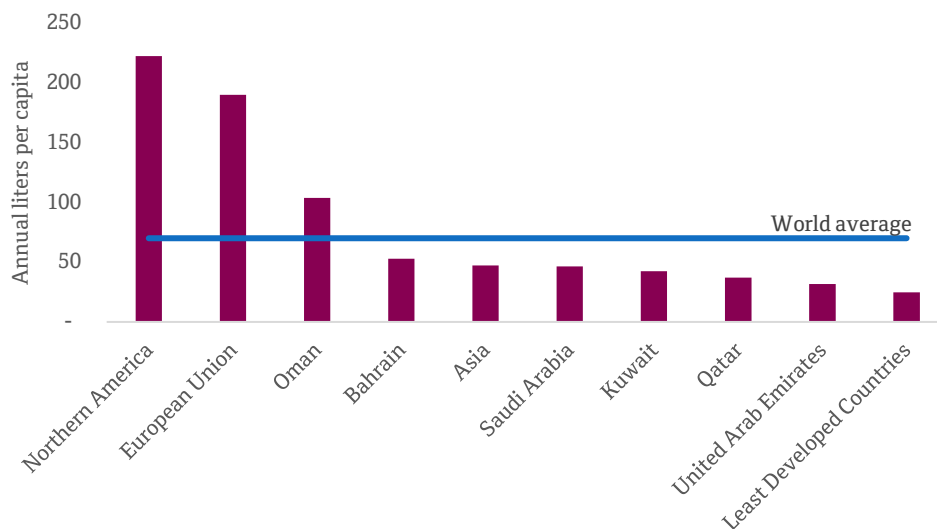
Livestock Production Index: Qatar vs. Peers



Source: World Bank (2021)

- **There is headroom for growth in consumption per capita:** Qatar has a lower per capita milk consumption when compared with its regional peers and the rest of the world.

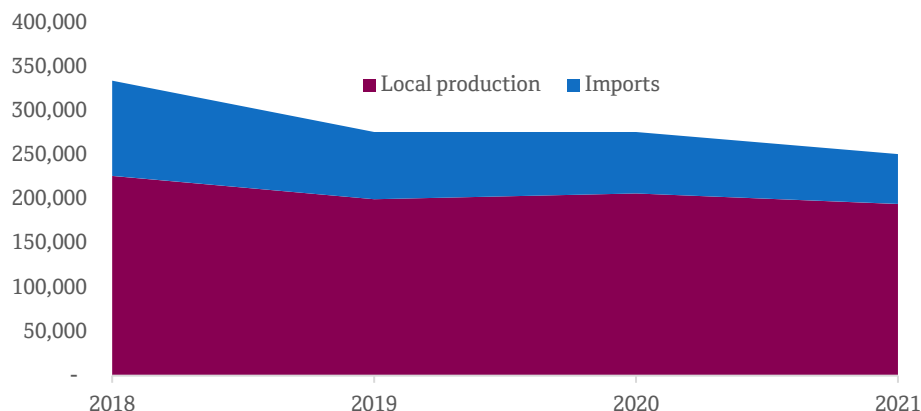
Annual milk consumption per capita (liters)



Source: FAO (2020), ourworldindata.org

- **Qatar's relatively high GDP per capita in the world,** coupled with a growing economy, should provide sufficient consumption power. IMF's April 2023 data show that Qatar's GDP per capita of \$83.9k is superior to both advanced economies' average (\$55.5k) and the world average (\$13.4k).
- **Government protection of Qatari dairy industry and producers.** The Government of Qatar has implemented certain measures intended for public safety, which provide some edge to local dairy producers vs. imports, as they enhance import-substitution. As an example, the Government of Qatar prohibited the import of powder-based UHT milk. 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.

Qatar's Milk & Related Products Local Production vs Imports (tons)

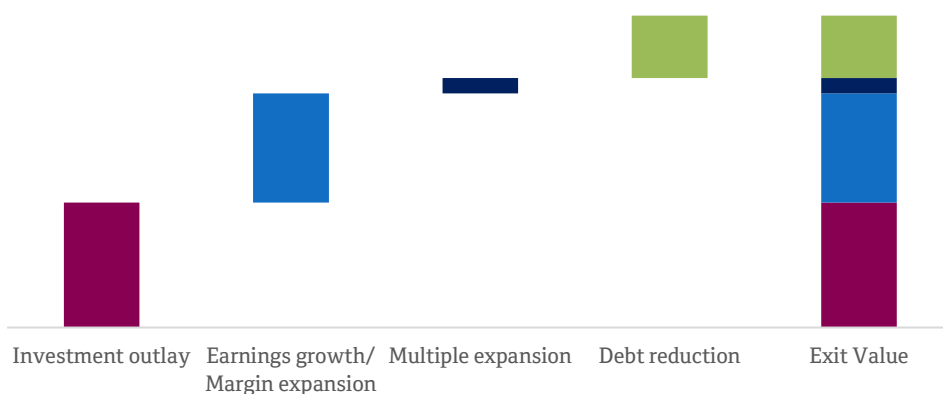


Source: PSA

International Expansion: Baladna Model Exportation – Malaysian Case Study; Promises to Add Significant Value

- Of all the international parties Baladna has signed MoU's with, the Malaysian MoU has the most granular detail disclosure that we try to make sense of here: **With constraints to grow organically at home (due to a small population size) or through direct product exports (due to natural cost disadvantages emanating primarily from relatively high humid conditions), we think Baladna will unleash significant value for investors through exporting and replicating its model that has been a resounding success at home.** Baladna has since signed a conditional shareholder agreement with two Malaysian entities to establish a dairy JV in Malaysia, with the pay-off likely to mimic a "PE exit."
- **The deal:** On 6 August 2022, Baladna signed a conditional shareholders' agreement (CSA) with two Malaysian companies, FGV Holdings Berhad (FGV) and Touch Group Holdings Sdn Bhd (TGH), to form a JV that will develop an integrated dairy farming business in Malaysia. The King of Malaysia's visit later in December shows strong intent from Malaysia's government. The project is expected to be operational by 2025, producing 100mn lt of fresh milk per annum within the first three years, ramping up to 300mn lt in 10 years. The model is premised on Baladna's "grass-to-glass" concept, which is fully integrated, from crop production to feed the cows, to processing and selling of fresh milk. For comparison, Baladna's Qatari operations produced 141.2mn liters of milk in FY2022.
- **Baladna will own 40% of the JV, while FGV and TGH will own 40% and 20%, respectively.** Covering 3,259 ha, in FGV Chuping Agro Valley, the project has an expected capital outlay of QR3.6bn. Aiding the thesis, Malaysia is expected to command better margins than Baladna's Qatari operations partly due to more favorable climatic conditions. **In relative terms, at 300M lt of production, Baladna's share of 40% in the Malaysian JV is equivalent to about 85% of Baladna's current operations.**
- **The Malaysian project is set to mimic certain characteristics, including time horizon, of a typical private equity investment cycle and payoff: With Baladna an integral part of the management, bringing in its operational expertise, significant value is likely to accrue during the project expansion phase of between 3-10 years as output expands from 100M lt to 300M lt of milk production. Also, debt-reduction will be another important source of value-creation.** We think there will be limited value created from multiple expansion as the exit multiple is known with high degree of probability at inception given the dairy business model has been in existence for a long time.

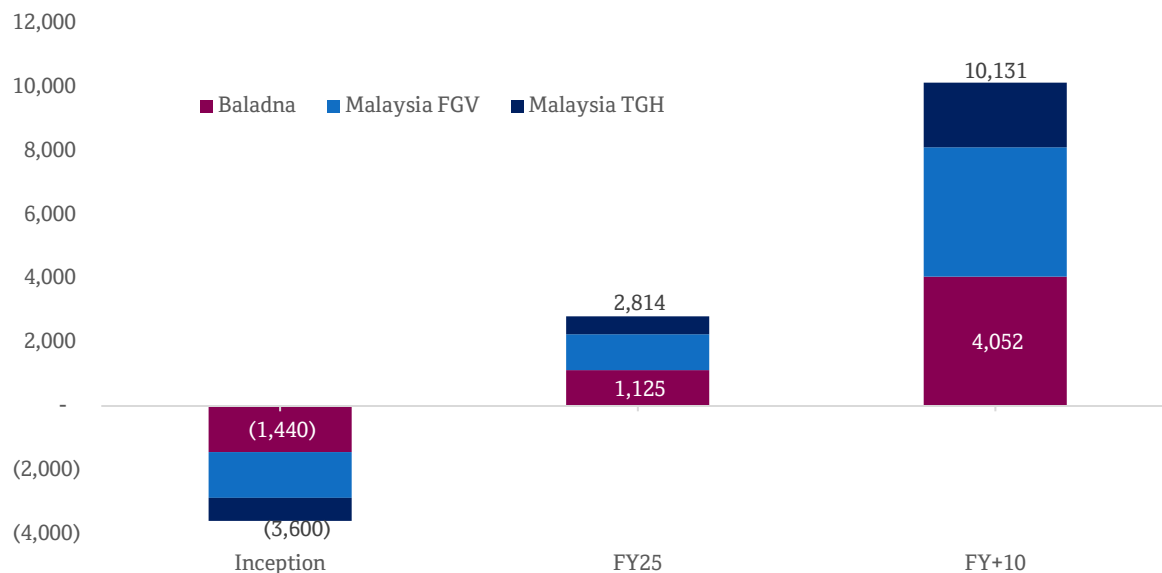
Typical PE Investment Value Creation Process



Source: CFA Institute, QNBFS Research

- **The probable exit route as per management assertion is an IPO**, with the likelihood of that happening increasing drastically from the fifth year. We cannot, however, rule out other exit routes such as a buyout which generally tends to dominate the PE market. Using Baladna's Qatari operations margin profile (a conservative assumption), we estimate that the Malaysian project will be valued at QR10.1bn in Year 10, assumed to be the investment exit year.

Malaysia JV Illustrative Value Creation Over Time: Investment outlay and expected exit values in QR'mn



Source: QNBFS Research

- **Using the PE-favored EV/EBITDA multiple approach to value this deal, we estimate a total exit value of QR10.1bn in the tenth year which translates to a CAGR of 10.9% on the initial investment.** Comparatively, the QSE returned, on a total return basis, an average of 10.0% per annum during the 2010s decade. We estimate that an NPV/share of anywhere between -QR0.672 and QR0.856 accrues to Baladna. The extent of value creation depends on the amount of debt repaid and probability/extent of project success. Given Baladna's current market share price, this implies an upside of between -44.6% and 56.9%. However, we have not included this in our current estimate of Baladna's TP. The odds of success in Malaysia are in Baladna's favor on the back of its strategy execution pedigree built here at home.

Scenario Analysis: Malaysian JV Expected Marginal Value/Share

	% of debt repaid											
	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%	
Probability of Success	10%	(0.672)	(0.596)	(0.520)	(0.445)	(0.369)	(0.293)	(0.217)	(0.142)	(0.066)	0.010	0.086
	20%	(0.586)	(0.511)	(0.435)	(0.359)	(0.283)	(0.208)	(0.132)	(0.056)	0.020	0.095	0.171
	30%	(0.501)	(0.425)	(0.349)	(0.273)	(0.198)	(0.122)	(0.046)	0.030	0.105	0.181	0.257
	40%	(0.415)	(0.339)	(0.264)	(0.188)	(0.112)	(0.036)	0.039	0.115	0.191	0.267	0.342
	50%	(0.329)	(0.254)	(0.178)	(0.102)	(0.026)	0.049	0.125	0.201	0.277	0.352	0.428
	60%	(0.244)	(0.168)	(0.092)	(0.017)	0.059	0.135	0.211	0.286	0.362	0.438	0.514
	70%	(0.158)	(0.082)	(0.007)	0.069	0.145	0.221	0.296	0.372	0.448	0.524	0.599
	80%	(0.073)	0.003	0.079	0.155	0.230	0.306	0.382	0.458	0.533	0.609	0.685
	90%	0.013	0.089	0.164	0.240	0.316	0.392	0.467	0.543	0.619	0.695	0.770
	100%	0.099	0.174	0.250	0.326	0.402	0.477	0.553	0.629	0.705	0.780	0.856

Source: QNBFS Research

Malaysian JV Expected Marginal Value as Percentage of Current Share Price

		% of debt repaid										
		0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Probability of Success	10%	-44.6%	-39.6%	-34.6%	-29.5%	-24.5%	-19.5%	-14.4%	-9.4%	-4.4%	0.7%	5.7%
	20%	-39.0%	-33.9%	-28.9%	-23.9%	-18.8%	-13.8%	-8.8%	-3.7%	1.3%	6.3%	11.4%
	30%	-33.3%	-28.2%	-23.2%	-18.2%	-13.1%	-8.1%	-3.1%	2.0%	7.0%	12.0%	17.1%
	40%	-27.6%	-22.5%	-17.5%	-12.5%	-7.4%	-2.4%	2.6%	7.7%	12.7%	17.7%	22.8%
	50%	-21.9%	-16.9%	-11.8%	-6.8%	-1.8%	3.3%	8.3%	13.3%	18.4%	23.4%	28.4%
	60%	-16.2%	-11.2%	-6.1%	-1.1%	3.9%	9.0%	14.0%	19.0%	24.1%	29.1%	34.1%
	70%	-10.5%	-5.5%	-0.4%	4.6%	9.6%	14.7%	19.7%	24.7%	29.8%	34.8%	39.8%
	80%	-4.8%	0.2%	5.2%	10.3%	15.3%	20.3%	25.4%	30.4%	35.4%	40.5%	45.5%
	90%	0.9%	5.9%	10.9%	16.0%	21.0%	26.0%	31.1%	36.1%	41.1%	46.2%	51.2%
	100%	6.6%	11.6%	16.6%	21.6%	26.7%	31.7%	36.7%	41.8%	46.8%	51.8%	56.9%

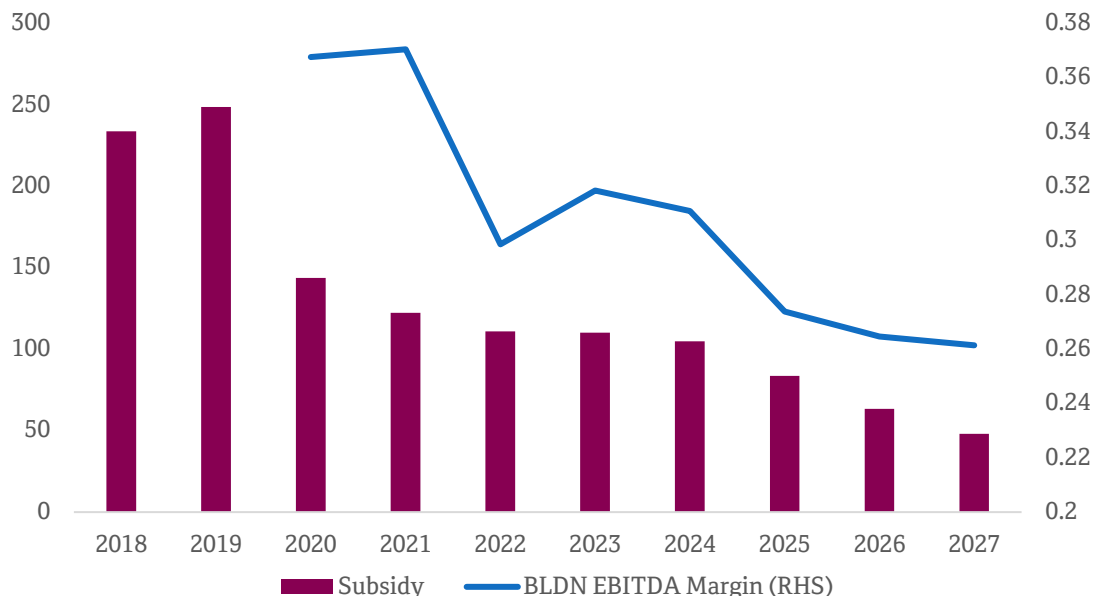
Source: QNBFS Research

- Malaysia imports most of its growing dairy requirements:** There is a growing demand for dairy products in Malaysia, particularly among urban consumers. Milk and milk-based products such as cheese, butter, and yogurt are increasingly becoming popular, as are value-added products such as flavored milk and milkshakes. With a population of more than 34 million and a relatively low but growing per capita milk consumption, conservative estimates put Malaysia's annual consumption at more than 800mn liters per year. Less than 100mn liters of Malaysia's milk demand is met by local producers. Some of the notable local dairy producers include Malaysia Dairy Industries, Bright Cow, Farm Fresh, and Sunglo Dairy. **With the government pushing for self-sufficiency, there is significant scope for local growth. Even the expected addition of 300mn liters by the Baladna JV will not be enough to close the demand gap.** At the moment most of the dairy requirements are imported primarily from New Zealand, Australia, and Europe.
- Baladna has also signed separate MoUs with the Uzbekistan government and Indonesian and Philippines companies.** With Uzbekistan, the agreement entails the exchange of information and experience related to the development of the dairy industry in Uzbekistan, specifically the production and processing of a wide range of fresh milk and dairy products. The Indonesian MoUs are with two companies: (1) PT Perkebunan Nusantara III WLL that specializes in crop processing and agribusiness, and (2) PT Berdikari WLL that primarily deals in farming infrastructure and farm management system services. The proposed joint efforts aim to enhance cooperation, exchange of information and experience to identify, assess and initiate projects relating to the dairy sector so that Indonesia reduces dependence on imports by developing agricultural and livestock industries through building a reliable livestock breeding infrastructure.

Investment Thesis: Downside

- **Cessation of government support by 2027.** We see BLDN's EBITDA margin falling to 23.2% in FY2028 from 26.1% in FY2027 primarily due to the impact of termination of government support. Also, earlier in FY2025, a sharp decline in government support by 20.2% will see the EBITDA margin shrink to 27.4% from 31.1% in FY2024. **In the meantime, total government support of QR1.27bn over 10 years (five years remaining) enhances BLDN's bottom-line and valuation.** In order to merit this support, Baladna fulfills certain criteria including having utilized its IPO proceeds to reduce its debt as well as meet certain periodic volume targets. So far, Baladna has met and even exceeded these conditions without difficulty. The annual government support payments schedule follows:

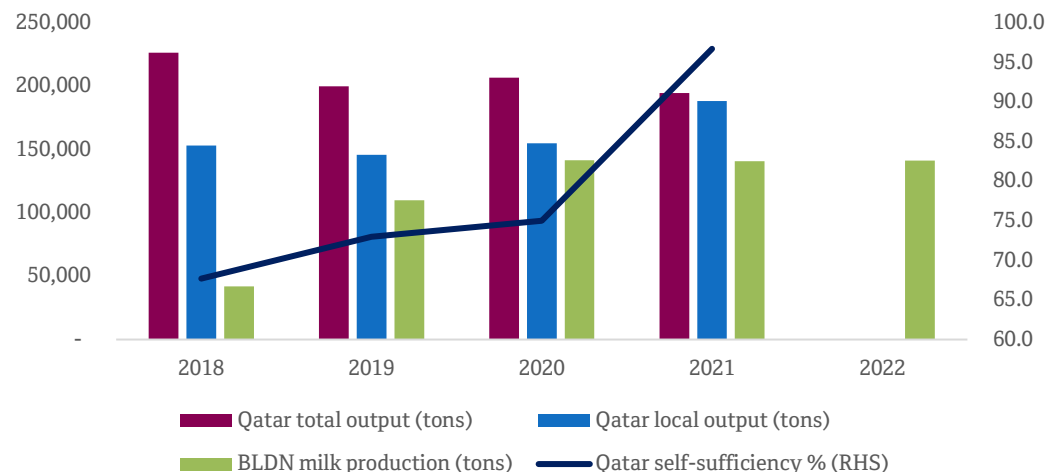
State Compensation (QR'mn) Vs. Baladna's EBITDA Margin (%)



Source: Company data

- **Given the finite nature of this support, the investment community will closely follow Baladna's long-term standalone profitability.** Qatar's locally produced dairy products have grown at a CAGR of 7.1% between 2018 and 2021. It is, however, unlikely to sustain such high growth rates for the longer term as Qatar's self-sufficiency reaches 100% coupled with the population size/growth constraints on demand. For Baladna to sustain higher growth rates for longer, it will need to keep enriching its product range and geographic coverage. Between 2018 and 2022 Baladna's milk production grew at a CAGR of 35.4%. We do not see the same high-growth levels achieved in future, however. Management has already identified this constraint, hence its initiatives to expand operations both geographically and into different businesses.

Qatar's Milk & Related Products Production



Source: PSA, Company data

Company Overview

- **Baladna Q.P.S.C. (QSE ticker: BLDN) is a public shareholding company, incorporated in 2019, that wholly owns Baladna Food Industries (BFI), Qatar's biggest dairy producer.** BFI owns and operates facilities in Qatar that produce fresh cow's milk and other dairy products for sale to the Qatari market under its premium Baladna brand as well as its value brand Awafi. In addition, it sells other by-products including compost, beef, and plastic food packaging. Established in 2014, BFI initially produced sheep and goats dairy products. However, in response to the 2017 blockade, BFI heavily invested in cow milk-based dairy. With a QR3.6bn 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 sheep and goat business was discontinued.
- **For the 2019 IPO, BFI's founding partners placed their 100% stake in BFI into Baladna as capital-in-kind, and then offered Baladna's shares to the public, in the process establishing Baladna Q.P.S.C.** In return, the founders received 475,250,000 shares representing 25% of Baladna Q.P.S.C.'s share capital. The IPO raised QR1.44bn, which was used primarily 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, 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 was set at 49% and remains so.
- **On the back of QR3.6bn in capex over the past six years, Baladna has built its Qatari facilities including:**
 - Two farms, with barns that house cows, and milking area with new milking parlor technology
 - Two dairy factories and one shared dairy & juice factory, using state-of-the-art technologies
 - A separate state of the art manufacturing facility to produce evaporated milk and sterilized cream
 - A feed mixing facility, located on the farm to store animal feed with 6-months of storage capacity
 - A state of the art wastewater treatment plant to supply treated 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 park, visitor hall and restaurant to provide visitors the unique experience of farm life in Qatar
 - A packaging plant, to produce plastic bottles and caps for Baladna products and external sales
 - Its own distribution network with over 139 routes and 150 plus trucks to deliver fresh dairy products daily
- **BFI 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, ultra-high temperature long-life milk, cheese, labneh, fresh cream, desserts, and ghee.
- **Baladna also produces non-dairy products including juice, meat, and organic fertilizers.** It produces both fresh and long-life juice with flavors including 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.
- **At the end of December 2022, BLDN's herd size was approximately 25k cows, with about 10.5k being milked.** The herd is housed in two farms spread over a total area of more than 2.4mn square meters. Future expansion of the herd will be organic.
- **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. There are plans to grow some of its own feed requirements through backward integration.

Major Shareholders

Shareholder	Number of Shares as of 31 December 2022	%
Mr. Mohamed Moutaz Al Khayyat	237,475,000	12.492%
Mr. Ramez Al Khayyat	237,485,000	12.493%
General Retirement and Social Insurance Authority (GRSIA)	163,810,951	8.617%
Total	638,770,951	33.602%

Source: Company data

Management

Board Members





Moutaz Al-Khayyat
Chairman



Mohammed Badr Al Sada
Vice Chairman



Ramez Al-Khayyat
Managing Director



His Excellency Sheik Faleh Bin Nasser Bin Ahmad Al-Thani
(Minister of Environment and Climate Change) Board Member



Hamad Bin Abdullah Bin Khalid Al-Attiya
Board Member




Mazen Alsabeti
Board Member




Aidan Tynan
Independent Board Member


Source: Company data

Executive







Ramez Al-Khayyat
Managing Director




Malcolm Jordan
Chief Executive Officer




Saifullah Khan
Chief Financial Officer




Paul Kenny
GM - Sales




David Stuart
GM - Manufacturing




Julian Marcolini
GM - Quality



Nasser Al Maslamani
Group HR Director



Firas Khalil
Information Technology Director



Francis Higgins
Head of Sustainability and Communications

Source: Company data

Financial Statements & Projections

Income Statement

GROUP	2022a	2023e	2024e	2025e	2026e
REVENUE	985,620,392	1,071,573,861	1,296,763,810	1,510,405,633	1,626,226,658
GROSS PROFIT	209,901,661	261,012,605	337,860,140	393,627,014	439,029,860
OTHER INCOME*	117,447,276	116,643,395	111,497,709	90,316,593	69,939,562
EBITDA	294,348,293	341,180,441	403,204,288	413,679,059	430,458,938
OPERATING PROFIT	153,688,832	198,281,650	270,486,458	296,355,906	314,029,675
NET PROFIT	80,611,726	89,850,739	176,275,354	211,467,598	232,994,065

*A big component of Other Income is made up of the government subsidy

Source: Company data, QNBFS Research

Balance Sheet

GROUP	2022a	2023e	2024e	2025e	2026e
Non-current asset					
Property and equipment	3,128,084,820	3,056,185,052	3,046,557,000	2,982,162,782	2,894,427,730
Right of use assets	21,056,526	8,155,085	8,155,085	8,155,085	8,155,085
Intangible assets	6,411,217	4,108,766	1,801,123	1,801,123	1,801,123
FVTPL assets	218,124,952	218,124,952	218,124,952	218,124,952	218,124,952
Biological assets	219,941,340	255,438,277	289,485,543	321,310,309	351,057,652
Total non-current assets	3,593,618,855	3,542,012,132	3,564,123,703	3,531,554,250	3,473,566,542
Current assets					
Biological assets	813,800	945,141	1,071,119	1,188,873	1,298,941
Inventories	442,974,185	462,871,009	547,581,945	637,736,436	677,948,737
Accounts receivable and prepayments	307,970,755	316,952,544	337,410,895	340,533,687	333,419,732
Due from related parties	30,709,498	30,709,498	30,709,498	30,709,498	30,709,498
Cash and bank balances	62,367,530	69,429,362	16,074,329	19,446,945	26,159,411
Total Current assets	844,835,768	880,907,554	932,847,786	1,029,615,438	1,069,536,319
Total assets	4,438,454,623	4,422,919,686	4,496,971,489	4,561,169,689	4,543,102,860
EQUITY AND LIABILITIES					
Equity	1,901,000,000	1,901,000,000	1,901,000,000	1,901,000,000	1,901,000,000
Legal reserve	37,157,664	46,142,737	63,770,273	84,917,033	108,216,439
Acquisition reserve	201,123,011	201,123,011	201,123,011	201,123,011	201,123,011
Retained earnings	109,594,477	188,213,874	274,424,964	325,993,486	369,752,112
Total equity	2,248,875,152	2,336,479,622	2,440,318,248	2,513,033,530	2,580,091,562
Non-current liability					
Islamic financing: Interest bearing loans and borrowings	1,634,196,123	1,543,835,560	1,498,655,278	1,462,511,053	1,372,150,489
Lease liabilities	8,805,361	4,902,785	1,014,318	1,014,318	1,014,318
Employees' end of service benefits	13,589,562	14,351,146	15,318,434	16,462,473	17,659,594
Total non-current liability	1,656,591,046	1,563,089,490	1,514,988,030	1,479,987,843	1,390,824,401
Current liability					
Lease liabilities	15,186,935	8,456,016	1,749,432	1,749,432	1,749,432
Due to related parties	4,283,283	4,283,283	4,283,283	4,283,283	4,283,283
Accounts payable and accruals	239,693,454	246,425,958	276,266,898	306,605,777	320,283,796
Islamic: Interest bearing loans and borrowings	86,125,000	81,362,840	78,981,760	77,076,896	72,314,736
Short term borrowings	88,206,914	83,329,637	80,890,999	78,940,089	74,062,812
Bank overdraft	99,492,839	99,492,839	99,492,839	99,492,839	99,492,839
Total current liability	532,988,425	523,350,574	541,665,212	568,148,316	572,186,897
Total liabilities	2,189,579,471	2,086,440,064	2,056,653,242	2,048,136,159	1,963,011,299
Total equity and liabilities	4,438,454,623	4,422,919,686	4,496,971,489	4,561,169,689	4,543,102,860

Source: Company data, QNBFS Research

Cashflow Statement

GROUP	2022a	2023e	2024e	2025e	2026e
Cash Flow from Operating Activities	8,367,485	150,440,102	172,600,566	206,315,743	272,066,426
Cash Flow from Investing Activities	(406,730,134)	(32,744,775)	(97,330,703)	(29,477,502)	(5,242,778)
Cash Flow from Financing Activities	394,361,080	(110,633,495)	(128,624,896)	(173,465,625)	(260,111,181)
Change in Cash	(4,001,569)	7,061,832	(53,355,033)	3,372,616	6,712,467
Cash Beginning of Period	(52,624,771)	(37,125,309)	(30,063,477)	(83,418,510)	(80,045,894)
Restricted bank balance	19,501,031	-	-	-	-
Cash End of Period	(37,125,309)	(30,063,477)	(83,418,510)	(80,045,894)	(73,333,428)

Source: Company data, QNBFS Research

Ratios

GROUP	2022a	2023e	2024e	2025e	2026e
Growth Rates					
Revenue	27.5%	8.7%	21.0%	16.5%	7.7%
Gross Profit	6.7%	24.3%	29.4%	16.5%	11.5%
EBITDA	2.8%	15.9%	18.2%	2.6%	4.1%
EBIT	-4.0%	29.0%	36.4%	9.6%	6.0%
NP	-39.8%	11.5%	96.2%	20.0%	10.2%
EPS	-39.4%	11.5%	96.2%	20.0%	10.2%
DPS	-100.0%	n.m	96.2%	20.0%	10.2%
CFPS					
Operating Ratios					
Gross Margin	21.3%	24.4%	26.1%	26.1%	27.0%
EBITDA Margin	29.9%	31.8%	31.1%	27.4%	26.5%
EBIT Margin	15.6%	18.5%	20.9%	19.6%	19.3%
Net Margin	8.2%	8.4%	13.6%	14.0%	14.3%
Working Capital Ratios					
Inventory Days	210.2	206.5	208.5	208.5	208.5
Average Collection Period	41.7	41.7	41.7	41.7	41.7
Payable Days	68.1	68.1	68.1	68.1	68.1
NWC days	183.8	180.2	182.1	182.1	182.1
Finance Ratios					
Debt-Equity Ratio	86%	78%	72%	68%	63%
Net Debt -Equity Ratio	83%	75%	71%	68%	62%
Net Debt -to-Capital	45%	43%	42%	40%	38%
Net Debt -to-EBITDA	6.35	5.13	4.33	4.11	3.70
Interest Coverage	2.55	1.85	2.94	3.60	4.02
Return Ratios					
ROIC	3.7%	4.8%	6.4%	7.0%	7.5%
ROE	3.6%	3.8%	7.2%	8.4%	9.0%
ROA	1.8%	2.0%	3.9%	4.6%	5.1%
FCF Yield	-10.9%	4.1%	2.6%	6.2%	9.3%
Liquidity Ratios					
Current Ratio	1.59	1.68	1.72	1.81	1.87
Quick Ratio	0.75	0.80	0.71	0.69	0.68
Valuation					
EV/Sales	4.80	4.30	3.55	3.02	2.74
EV/EBITDA	16.07	13.52	11.42	11.03	10.35
EV/EBIT	30.78	23.26	17.03	15.39	14.19
P/E	35.49	31.84	16.23	13.53	12.28
P/CF	341.92	19.02	16.58	13.87	10.52
P/BV	1.27	1.22	1.17	1.14	1.11
Dividend Yield	0.00%	2.38%	4.66%	5.60%	6.17%

Source: Company data, QNBFS Research

[Ends]

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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