Baladna (BLDN)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR1.320	Target Price	QR1.767
Implied Upside	33.9%		

In-line 1Q2024 On Strong Product Volumes & Margin Recovery; Maintain Outperform

Baladna's 1Q2024 attributable profit matched our estimate, driven by strong volume growth in all product categories and across all sales channels, and further bolstered by margin recovery and expansion. We expected this trend to continue in the short- to medium-term and therefore maintain both our Outperform rating and TP, which implies upside potential of 33.9%. While we note Baladna's recent share price resurgence, we believe there is still more room for the stock to run, buttressed by a relatively attractive DY on growing operating cash flows as well as strong earnings momentum for the foreseeable future as management focuses on operational efficiency.

Highlights

- Baladna's 1Q2024 attributable profit jumped 141.0%/7.1% YoY/QoQ to QR48.3mn, matching our estimate of QR47.9mn (variation of +0.7%). While a good chunk of earnings growth filtered directly from the top-line, a theme of strong operational efficiency is palpable in the latest set of results as margins recovered both YoY and sequentially. GP margin improved to 22.9% (vs. 24.3% expected) from 21.3%/17.1% in 1Q2023/4Q2023. Meanwhile, we estimate that the EBITDA margin (ex. government support) improved to 20.7% (vs. 22.8% modeled) from 19.7%/14.2% in 1Q2023/4Q2023 primarily due to significantly lower G&A expenses, which fell 30.8%/24.6% YoY/QoQ. However, in future we expect to see further margin expansion at the trading & manufacturing level rather than at the operating level due to manufacturing efficiencies driven by product value engineering and lower commodity/input costs. Moreover, the re-negotiated financing terms as well as financial investments fair value gains helped the bottom line YoY.

- BLDN's 1Q2024 revenue climbed 22.9%/10.1% YoY/QoQ to QR312.8mn in 1Q2024, a tad more than our estimate of QR304.6mn. Dairy sales rose 20.0%/8.5% YoY/QoQ to QR273.8mn. Juice sales increased 19.4%/3.5% YoY/QoQ to QR19.0mn. Other sales (dairy byproducts + detergents) jumped 91.7%/79.7% YoY/QoQ to QR20.0mn.

- We see Baladna creating value from strong sales volume growth and declining commodity prices in the near term, while 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 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 33.9% 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 continue to 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	0.099	0.112	0.129	0.151
P/E (x)	22.89	13.37	11.79	10.22	8.76
EV/EBITDA (x)	15.92	12.30	11.26	10.18	9.05
DPS (QR)	0.07	0.07	0.08	0.10	0.11
DY (%)	5.3%	5.6%	6.4%	7.4%	8.6%

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

Phibion Makuwerere, CFA
+974 4476 6589
phibion.makuwerere@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

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

Contacts

QNB Financial Services Co. W.L.L.
Contact Center: (+974) 4476 6666
info@qnbfs.com.qa
Doha, Qatar

Saugata Sarkar, CFA, CAIA
Head of Research
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
shahan.keushgerian@qnbfs.com.qa

Phibion Makuwerere, CFA
Senior Research Analyst
phibion.makuwerere@qnbfs.com.qa