

Baladna (BLDN)

| | | | |
|----------------|-------------------|--------------|----------------|
| Recommendation | OUTPERFORM | Risk Rating | R-3 |
| Share Price | QR1.159 | Target Price | QR1.767 |
| Implied Upside | 52.5% | | |

4Q2023 NP Beats Estimate as Board Pays out More Than 100%; Upgrade to Outperform

Baladna's 4Q2023 attributable profit beat our estimate primarily due to a fair value gain on financial investments even as normalized margins printed lower-than-expected. While revenue rose a tad less than we had forecasted, the group managed to grow its local market share by 2.5ppts to 53.5% on strong volumes in both the HORECA and retail sales channels. **In a show of confidence by the board in Baladna's future cash-generation prospects despite an elevated debt profile, declared dividend was more than 100% of earnings, translating to a yield of 6.0% (vs QSE's 4.8%). This should please investors - it is significantly ahead of our expectations and could see a re-rating of the stock. We therefore upgrade BLDN from Accumulate to Outperform but maintain our TP that implies upside potential of 52.5%.**

Highlights

- Baladna's 4Q2023 attributable profit jumped 80.3%/102.5% YoY/QoQ to QR45.1mn, handily beating our estimate of QR28.5mn.** While GP margins came in lower, the beat is mainly due to a fair value gain on equity investments, which jumped to QR27.9mn from a fair value loss of QR10.7mn in 4Q2022 - otherwise it would have been a miss when adjusted for this gain. We had not modeled in any fair value gains/losses in 4Q specifically given the foreign exchange (downside) risks associated with its Egyptian Juhayna investment. GP margin printed at 17.1% vs 21.0% expected and lower than both 4Q2022 (26.1%) and 3Q2023 (20.1%). With no granular quarterly data provided on cost of sales we extrapolate from annual numbers that GP margin was primarily weighed down by cost of dairy milk & packaging material and cost of sale of livestock - we need more color from management on why this is the case. Meanwhile, cost of feeds came down as expected, in line with the stabilization in commodity prices.
- While other income came in-line, both G&A and S&D expenses were lower than expectations** which helped to stem the contraction in both EBITDA and operating margins. EBITDA margin printed at 23.4% vs 26.3% expected and compared with 35.0% in 4Q2022 and 28.3% in 3Q2023. Operating margin came in at 10.9% vs 14.2% expected (21.1% in 4Q2022 and 14.1% in 3Q2023). Finance costs and income tax came in line.
- BLDN's 4Q2023 revenue rose 2.6%/11% YoY/QoQ to QR284.1mn, below our expectations of QR298.9mn.** The YoY positive print is remarkable considering the high base set by the World Cup in the base quarter. Dairy sales rose 11.0%/9.2% YoY to QR252.3mn vs. our estimate of QR265.7mn. Juice sales increased 9.6% YoY but decreased 1.5% QoQ to QR18.4mn and considerably softer than QR20.1mn expected. Other sales (dairy by products +detergents) declined 52.9% YoY but rose 115.5% QoQ to QR13.4mn vs. QR13.1mn modeled.
- The board recommended a 121% dividend payout ratio for FY2023 on the back of QR109.6mn in attributable profit for the year, an increase of 35.7% from FY2022. This is supported by strong cash flows from operations as well as BLDN's heavy investment cycle coming to an end.** Revenue for the year rose 7.2% to QR1.1bn. FY2023 EPS was QR0.0577 up from QR0.0424 and a dividend of QR0.0695/share was recommended by the board, almost double the QR0.0370 we had penciled in.
- In the medium term, we see margin expansion from increased capacity utilization, as volumes grow, coupled with the benefit of declining soft commodity prices. We see a gradual decline in finance costs from FY2024 as the group gradually pays down its debt while capex normalization boosts FCF.** Re-negotiation of finance terms during 3Q2023 also helps to keep finance costs manageable for the foreseeable future. Increasing FCF should be used to reduce the debt burden and to continue increasing distributions to shareholders. 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.

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 upgrade our call to Outperform from Accumulate but maintain our 12-month TP of QR1.767, implying a 52.5% upside potential. The stock has been under pressure for months and we believe this set of results could spark a re-rating.** 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. Inorganically, the scope to export its model creates PE-like payoff optionality. We also note that while Baladna's capital return ratios are relatively low, they should gradually improve as plant utilization increases and capex normalizes.
- Key risks: (1) Price controls (2) Volatile soft commodity prices (3) Cessation of government support (4) 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 | 2023a | 2024e | 2025e | 2026e | 2027e |
|---------------|-------|-------|-------|-------|-------|
| EPS (QR) | 0.058 | 0.098 | 0.117 | 0.130 | 0.145 |
| P/E (x) | 20.10 | 11.86 | 9.87 | 8.93 | 8.01 |
| EV/EBITDA (x) | 13.08 | 9.90 | 9.28 | 8.90 | 8.46 |
| DPS (QR) | 0.07 | 0.07 | 0.09 | 0.10 | 0.11 |
| DY (%) | 6.0% | 6.4% | 7.7% | 8.5% | 9.5% |

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

Key Data

| | |
|-------------------------|----------------|
| Current Market Price | QR1.159 |
| Dividend Yield (%) | 6.0 |
| Bloomberg Ticker | BLDN QD |
| ADR/GDR Ticker | N/A |
| Reuters Ticker | BLDN.QA |
| ISIN | QA000T98R9J4 |
| Sector* | Consumer Goods |
| 52wk High/Low (QR) | 1.619/1.050 |
| 3-m Average Vol. (mn) | 4.6 |
| Mkt. Cap. (\$ bn/QR bn) | 0.6/2.2 |
| EV (\$ bn/QR bn) | 1.0/3.8 |
| Shares O/S (mn) | 1,901.0 |
| FO Limit* (%) | 49.0 |
| FO (Institutional)* (%) | 2.8 |
| 1-Year Total Return (%) | -12.9 |
| Fiscal Year-End | December 31 |

Source: Bloomberg (as of February 25, 2024), *Qatar Exchange (as of February 25, 2024); Note: FO is foreign ownership

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

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